MENDOCINO COUNTY BOARD OF SUPERVISORS

ONLINE AGENDA SUMMARY

BOARD AGENDA #____

-Transmittal of electronic Agenda Summaries and associated records must be emailed to: bosagenda@co.mendocino.ca.us

-Electronic Agenda Transmission Checklist: ☒ Agenda Summary ☐ Records ☐ If applicable, list other online information below

TO: **Board of Supervisors** **DATE:** **March 7, 2012**

FROM: **Human Resources** **MEETING DATE:** **March 12, 2012**

DEPT RESOURCE: **Carmel Angelo, CEO** **PHONE:** 463-4441 Present ☒ On Call ☐

Pat Meek, HR Director **PHONE:** 463-4261 Present ☒ On Call ☐

Sue Goodrick, HR Manager

Consent Agenda ☐ Regular Agenda ☒ Noticed Public Hearing ☐ Time Allocated for Item: 1½ hr

AGENDA TITLE: Discussion and Possible Action on Proposal to Preserve Non-Medicare Eligible Retiree Health Plan Through December 31, 2013

■ **PREVIOUS BOARD/BOARD COMMITTEE ACTIONS:** See Staff Report.

■ **SUMMARY OF REQUEST:** At the Board's direction, staff has agendized the Non-Medicare Eligible Retiree Health Plan status. The status update includes a Staff Report, attached, with recommendations based on the Board's unanimous decision on January 24, 2012 for the preservation of the program through December 31, 2013. Additional reference information is provided in Board binders.

■ **SUPPLEMENTAL INFORMATION AVAILABLE ONLINE AT:**

■ **ADDITIONAL INFORMATION ON FILE WITH THE CLERK OF THE BOARD (CHECKED BY COB IF APPLICABLE):** ☐

FISCAL IMPACT:

Source of Funding	*Current* F/Y Cost	*Annual Recurring* Cost	Budgeted in Current F/Y
General Fund	FY 2011/2012: Range of $284,996 - $386,096 (Plan deficit + Plan subsidy)	FY 2012/2013-FY 2013/2014: Range of $238,672 - $928,173 (Plan Subsidy only)	Yes ☐ No ☒ Total Gen. Fund Costs FY 2011/2012-Dec. 2013: Up to $1,314,269

■ **SUPERVISORIAL DISTRICT:** 1☐ 2☐ 3☐ 4☐ 5☐ All☒ ■ **VOTE REQUIREMENT:** Majority☒ 4/5ths☐

■ **RECOMMENDED ACTION/MOTION:** Accept Staff's recommendation for the Non-Medicare Eligible Retiree Health Plan which is based on the Board's unanimous decision on January 24, 2012 to preserve the Retiree Health Plan and subsidize the program in order to lower premium costs to the retirees:

1) Provide subsidy of $259.23 to reduce current $922.56 retiree premium rate to $663.33 (which is the rate proposed on January 24, 2012) for Plan Year 2012 resulting in an approximate 28% decrease in premium costs to retirees;

2) Allow for the approximate 60 non-Medicare eligible retirees who were participants in the Retiree Health Plan in September 2011 (prior to the notification of the rate increase and elimination of the County subsidy) to have the opportunity to re-enroll with an effective date of April 1, 2012 at the $922.56 premium rate and receive the $259.25 monthly subsidy;

3) Allow for any qualifying active employees who retire between now and the effective date of the plan termination on December 31, 2013 to receive the same subsidy as other qualifying non-Medicare eligible retirees.

■ **ALTERNATIVES:** 1) Continue to offer the current plan, at $922.56 per participant for Plan Year 2012, fully paid by participant; 2) Provide other direction to staff; 3) Allow RHP to terminate effective March 31, 2012.

■ **CEO REVIEW (NAME):** Carmel J. Angelo **PHONE:** 463-4441

RECOMMENDATION: Agree ☒ Disagree ☐ No Opinion ☐ Alternate ☐ Staff Report Attached ☐

BOARD ACTION (DATE: ____________**):** ❑ Approved ❑ Referred to____________________ ❑ Other ________

RECORDS EXECUTED: ❑ Agreement: _________ ❑ Resolution: ________ ❑ Ordinance: ________ ❑ Other _________

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MENDOCINO 1850 COUNTY

COUNTY OF MENDOCINO
BOARD OF SUPERVISORS
MAR 05 2012
EXECUTIVE OFFICE
PER
UKIAH, CALIFORNIA

February 6, 2012

To: Bargaining Unit Representatives

From: Pat Meek, Human Resources Director

Subject: Informational Meeting – Health Plan Benefits

On January 24, 2012, the Board of Supervisors approved a Retiree Health Plan Workgroup proposal (Option B), subject to applicable meet and confer requirements, to blend currently qualifying non-Medicare eligible retirees into the active employees health plan.

Please note this Board action does not confer any vested right into a County Retiree Health Plan or related benefit. The County reserves the right to modify and/or eliminate this proposed option at any time.

An informational meeting is scheduled to explain this proposal, identify possible impacts of the proposal and respond to any questions you might have.

DATE:	Monday, February 13, 2012
LOCATION:	Human Resources Conference Room
TIME:	9:00 a.m. – 11:00 a.m.

Attached is a copy of the draft Board of Supervisors minutes from the January 24, 2012 meeting. Additional background information will be provided prior to the informational meeting.

Please contact Sue Goodrick, Human Resources Benefits Administration Manager, at 463-5683 or goodrics@co.mendocino.ca.us to r.s.v.p. or if you have any questions prior to next Monday's discussion. If you are unable to attend this meeting, please send an alternate representative.

We appreciate your participation in this important, time sensitive discussion.

Human Resource Department
County of Mendocino
579 Low Gap Road
Ukiah, CA 95482

Board Action for Item 5d from the DRAFT Minutes of the January 24, 2012 Board of Supervisors Meeting:

AGENDA ITEM NO. 5D – PRESENTATION AND POSSIBLE ACTION ON RETIREE HEALTH PLAN WORK GROUP RECOMMENDATIONS ON THE TERMINATION AND ALTERNATIVES TO THE TERMINATION OF THE NON-MEDICARE ELIGIBLE RETIREE HEALTH PLAN EFFECTIVE FEBRUARY 29, 2012 – SPONSORING DEPARTMENT: HUMAN RESOURCES

Board Action: Upon motion by Supervisor Pinches, seconded by Supervisor Hamburg, and carried unanimously; IT IS ORDERED that the Board of Supervisors to:

1) Accept presentation from Staff and Retiree Health Plan Work Group on Recommendations on Termination and Alternatives to the Termination of the Non-Medicare Eligible Retiree Health Plan Effective February 29, 2012;

2) Confirm the Board's intent to terminate retiree health plan effective no later than December 31, 2013.

3) That the Board rescinds their earlier decision to terminate the retiree health plan effective February 29, 2012 that was made on November 15, 2011, and approve the Retiree Health Plan work group proposal #B subject to meet and confer effective April 1, 2012. The Board further extends the current plan at $922.56 per participant fully paid by participants through March 31, 2012.

   3a) Allow for the approximate 60 non-Medicare eligible retirees who were participants in the retiree health plan in September 2011 (prior to the notification of the rate increase and elimination of the County subsidy) who subsequently dropped from the plan to have the opportunity to re-enroll with an effective date of April 1, 2012;

   3b) Return to the Board with quarterly updates on plan experience and funding levels and Return to the Board in August/September 2012 with a possible renewal option for Plan Year 2013.

County Of Mendocino

RETIREE HEALTH PLAN BLENDING WITH ACTIVE EMPLOYEE PLAN
- INFORMATION FOR BARGAINING UNITS –

The BOS approved a Retiree Health Plan Workgroup proposal (Option B), subject to applicable meet and confer requirements, to blend qualifying retirees into the active employees' health plan. The BOS also authorized the termination of the Retiree Health Plan no later than 12/31/13. Please note this Board action does not confer any vested right into a County Retiree Health Plan or related benefit. The County reserves the right to modify and/or eliminate this proposed option at any time.

PLAN	Monthly Premium	Cost for 3 Mo. Stabilization Reserve	Subsidy		
CURRENT Separated: Rates are different -Reflects each group's (Active & Retiree) own costs and claims experience – Retirees pay total cost	Retiree Premium $922.56	No Reserve	Current Retiree Health Plan Funded by Premiums Ø Subsidy		
OPTION B Proposed 4/1/12 – 12/31/13 Blended/Different Rates: Reflects combined cost and claims experience for each group (Active & Retiree) - Retirees Pay 25% of & County Pays 75% of Subsidy	Blended Retiree Premium $663.33	Ø - Funded Thru Established Active Reserve	2012 County $219,907	Active Ø	2012 Retiree $73,302

Potential Impacts to Active Employee Health Plan Related to Blending with Retirees as Identified by Keenan and Associates – County Health Plan Consultants:

- Adverse claims experience:
  - 10% of the health plan pool creates 90% of the claims; average age of the active pool is 45 to 50; highest users of the plan fall in the 60 to 65 age range
- Added volatility to claims experience – extreme fluctuation in claim periods:
  - Retiree Claims: Oct - $100,913 Nov. - $47,074 Dec. - $137,827 Jan. - $230,927
- Decrease in validity of yearly budget projection:
  - Lack of stability impacts ability to accurately project plan costs; increased risk to the plan for premium rate increases to cover non-projected costs
- Increase to stop-loss coverage fees:
  - Increased claims over stop loss threshold will increase cost of stop loss coverage
- Increase to administration fees:
  - Delta & Medco rates based on # of claims processed, more claims equals higher cost to the plan
- Increase to claims stabilization reserve requirement:
  - Increased claims experience will require increased reserves which will increase premium rates
- Increase to IBNR (incurred-but-not-reported) claims requirement:
  - Increased claims experience will require increased reserves which will increase premium rates
- Increase to plan costs continue beyond retiree participation:
  - 2013, 2014 and/or 2015 rates will take into account any increase necessary to restore reserves

Subsidy Calculation:

The plan costs will be accounted separately for both groups to calculate the subsidy. The subsidy is determined by calculating the premium rates at both separate and blended rates for the retirees. The subsidy is the difference between the two retiree contribution levels.

Example: 2012 Separate Retiree Rate: premium X # of enrollees X 12 months = $819, 233
2012 Blended Retiree Rate: premium X # of enrollees X 12 months = $526, 026
Subsidy (Based on 74 Enrollees): $293, 209

County Share 75%: $219, 907
Retiree Share 25%: $ 73, 302 (divided between enrollees and added to their blended premium rate)

County Of Mendocino

RETIREE HEALTH PLAN
BACKGROUND INFORMATION FOR BARGAINING UNITS

Significant Events:

August 25, 1998: The BOS adopted Resolution No. 98-147 which defined Retiree Health Plan eligibility as only those employees employed by Mendocino County prior to September 1, 1998, who are at least 50 years of age and have a minimum of ten (10) years of service with Mendocino County.

September 22, 2009: The BOS adopted Resolution No. 09-218 which stated costs associated with the Retiree Health Plan would be funded with the use of excess earnings of the Mendocino County Employees Retirement Association and contributions by the retired employees who participate in the plan as determined annually by the Board of Supervisors, eliminating General Fund contribution for any shortfalls

September 14, 2011: The HR Benefits Manager, HR Director, and Health Plan Consultant, Peter McNamara, met with all Bargaining Unit Representatives to provide information regarding 2012Active Employee Health Plan rates. The union representatives were advised that based on current projections, the County would experience an 8.19% increase in program costs for Plan Year 2013 and an additional 8.39% increase for Plan Year 2014 for a total of approximately 16.6% increase in premium rates expected over the next two years.

September 21, 2011: The BOS received notification from the Board of Retirement of its intent to not release the balance of excess earnings ($658,654) that had been set aside to pay for retiree health benefits.

November 15, 2011: Staff received direction from the BOS to terminate the Retiree Health Plan upon giving participants a 90-day termination notice (effective February 29, 2011). Staff also received direction to form a short-term workgroup, with retiree representation, to review alternatives to termination of the Retiree Health Plan.

January 24, 2012: BOS Action 1/24/12: The BOS authorized the current Retiree Health Plan to remain in effect until 3/31/12 at the present rate of $922.56 per month fully paid by the participants. The BOS's decision to extend the termination date of the Retiree Health Plan included the authorization to proceed with the Retiree Health Plan Workgroup's alternate proposal B (below) subject to meet and confer with the Active Employee bargaining units. In addition, the BOS authorized the termination of the Retiree Health Plan no later than 12/31/13.

The Retiree Health Plan Workgroup proposal B is based on the County subsidizing the cost of blending the Retiree Health Plan with the Active Employee Plan with the retirees paying the share of the active employees premium increase. Since the active employee health plan premiums are covered 75% by the County and 25% by the employee, the subsidy costs are born 75% by the County and 25% by the Retirees. The subsidy was estimated based on 2012 plan rates and retiree enrollment. Premium rates and the subsidy amount for 2013 will be determined in August 2012 based on 2012 claims experience. At that time, the BOS will determine its desire to continue with the proposed blended plan based on the projected subsidy required.

Please note this Board action does not confer any vested right into a County Retiree Health Plan or related benefit. The County reserves the right to modify and/or eliminate this proposed option at any time.

Health Plan Rates:

2012		Actives				Retirees	
		Plan I	Rates	Plan II	Rates	Plan II	Rates
EE/Retiree Only		47	$ 881	433	$ 556.38	52	$ 922
EE/Retiree + Spouse		29	$ 1,930	186	$1,239.38	9	$ 1,845
EE + Child(ren)		10	$ 1,535	126	$ 991.47		
EE + Family		11	$ 2,626	162	$1,703.11		
Total		97		907		61	

Rates are based on actuarial analysis of the group's (active and/or retiree) claims experience, projected enrollment, trend factors in the Northern California region, administrative costs, stop loss coverage cost, and plan design.

Health Insurance Exchange: The Board of Supervisor's recent confirmation to terminate the retiree health plan effective no later than December 31, 2013 is based on the assumption that, effective January 1, 2014, through the Federal Affordable Care Act (ACA), an exchange system (a new marketplace where individuals can choose from a menu of insurance products) will be established eliminating participating insurance companies ability to decline health care coverage due to a pre-existing condition. This exchange will provide retirees with alternative health care coverage options.

Health Plan Term Definitions:

Blending: The retirees and active employees are combined into one pool for purposes of underwriting, reserve sharing and cross subsidies of cost from active employees to retirees. Rates are based on the combined claims experience of the two groups which provides lower rates for retirees while increasing the active employee rates. Premium rates for Plan II for active employees and retirees are the same.

Blending/Different Rates: Proposed Practice - Same blending of claims experience as above, however retirees absorb the increased cost of premium rates, due to blending, of the active employees which results in different rates for the two groups. Premium rates for the retirees would be higher than the active employees, but lower than rates determined by separating the claims experience of the two groups. (See below)

Separation: Current Practice - The retirees and active employees are combined into one pool for the sole purpose of realizing economies of scale for fixed expenses such as claims administration, third-party plan administration, stop loss insurance and network discounting. Rates are different for each group and reflect each group's own costs and claims experience which results in higher premiums for the retirees.

Stabilization Reserve: A stabilization reserve is typically established to protect the solvency of a self-insured health plan and ability to pay expenses in the event of extreme fluctuations in plan costs. Stabilization Reserves are usually equivalent to 3 months of plan expenditures. A stabilization reserve has never been established for the Retiree Health Plan. The Active Plan fully funded its stabilization reserve requirement in December 2010. If the two groups are blended, the active stabilization reserve serves both pools. The active plan reserve amount is not increased for 2012 because of the small size of the retiree pool.

Incurred But Not Reported (IBNR) Claims Reserve: This reserve provides funding for payment liability of claims "run-out" (those claims incurred during the current plan year but not submitted for payment until the following year). IBNR costs are calculated each year and are included in both the Active and Retiree plan rates.

Stop Loss Coverage: Stop loss coverage protects the self-funded retiree and active health plans from catastrophic losses by individuals. The Retiree Health Plan stop loss coverage provides for individual coverage on medical and prescription claims in excess of $125,000 to $1,000,000. The Active Health Plan stop loss coverage provides for individual coverage on medical and prescription claims in excess of $225,000 to $3,000,000. The stop loss coverage would need to be re-marketed in the event the retirees are blended with the active health plan. The cost impact of this is unknown.

Retiree Health Plan Enrollment Factors:

2012 Enrollment	Retirees/ + Dependent*	Future Enrollment**	Eligible for Retirement
Sept 2011	102 - 11	2102	195
Jan 2012	53 - 9	2013	8
April 2012 – Max	102 - 11	Post 2013	89
		Total	**292**

*1/24/12 - BOS direction to allow retirees enrolled in September 2011 to opt back in the plan effective April 1, 2012 if a blended plan is implemented.

** Future enrollment numbers are based on the total number of active county employees hired before 1998 broken down by the year of retirement eligibility. An actuarial analysis conducted by AON consulting, as part of the Retiree Health Plan Workgroup research, estimates that 63 employees and/or dependents will enroll in the health plan during 2012 and 2013.

What were the hurdles to blending retirees and current employees in a health plan?

The Mercer report listed the following:

- The need to Meet & Confer with bargaining units
- Accounting for the proper usage of the active employee's stabilization reserve.
- Accounting for an OPEB liability
- The plan design to be considered
- The development of and any direct subsides inherent with the rates
- Cost to the County (added by county staff later)

The Work group tackled all those hurdles and believes a proposal has been crafted that deals with them in a manner that solves the county's basic problems with the current Retiree Health Plan. We have worked to dispel the perceived difficulty of overcoming the hurdles to blending.

MEET & CONFER

The group worked to structure a proposal that would have no cost to current employees. Alternate B was created because it removed any cost to current employees. Through a couple of work sessions all parties worked under that assumption. We had no indication that scenario B would create a need for meet and confer. At the last minute it was verbally conveyed that no matter what we proposed in a blended system it would require Meet & Confer. We have seen no written opinions that any blending proposal requires Meet & Confer. We continue to believe that is not required when there is no change to labor agreements, working conditions or benefits.

If the county staff feels Meet & Confer is necessary and would promote positive labor relations we support that. A letter should be sent explaining what is being proposed and asking if the bargaining units want to meet and confer. That letter should be sent out immediately and let us join that discussion.

The blending proposals and sending a Meet & Confer letter do not re-open labor negotiations. Meet & Confer simply supplies information for the represented groups to respond to. Committee members have had numerous discussions with current employees and our proposal has raised no concerns with those we have spoken with. In fact, we have heard statements of support. Many current employees are watching the outcome of this work closely. The Meet & Confer issue does not appear as onerous as thought by county staff.

ACCOUNTING FOR THE PROPER UTILIZATION OF THE ACTIVE EMPLOYEE'S STABILAZATION RESERVE

The question was asked, "Wouldn't retirees coming into the current plan be using the reserve current employees have paid into?" Yes they would, after all most of them paid into that reserve as employees. With blending it will the same plan with the same people. Some are working, some have retired.

Retirees have and will participate in the stabilization fund.

- The rates that were used to determine the premium to be paid by retirees in the blended system include an amount previously set by the BOS that goes to the stabilization fund.
- The $922 retiree rate used to create the proposed blended premium contains an additional amount that would pay back the county's current funding shortfall. If when that shortfall is paid back and if that amount is not removed from the retiree premium calculation, retirees would be paying much more toward a reserve than current employees.

THE PLAN DESIGN TO BE CONSIDERED

As a part of the committee work a number of catastrophic plans were looked at. Based on the funding needs of any plan those were rejected due to high costs of premiums and the fact they did not solve the death spiral. (See attachment 3)

The recommendation stays with the same plan benefits currently offered, which is the same as the current employee plan II but without vision and dental coverage. Retirees have vision and dental plans that are available through AMCRE. (See Attachments 1 & 2)

OPEB Liability

In 2009 the county calculated a $129,000,000 OPEB liability which is significant. The committee is unaware of how that liability affected your annual borrowing but it did not keep you from your annual borrowing.

For whatever reasons, County Administration at that time believed that liability should be eliminated. To do that you took an action against your retirees that eliminated your then current promise to pay half the cost of the plan when the excess earnings that funded the Retiree Health Trust ran short.

If $129,000,000 is the value to retirees of the benefit you took away it would not be imprudent of you to take on an insignificant new OPEB liability to support those same retirees, who, do to their loss, helped the county probably receive a better credit rating resulting significant borrowing costs savings for the county.

After numerous discussions of the OPEB liability it became evident that the level of liability that might be created is what you see in the recommendations. Hopefully, we can all agree that the hurdle has been reduced to an insignificant level. Held up against your current real debt load of $130,000,000 the OPEB liability is 2/10 of one per cent of the county's debt. Most accepted measures of OPEB liability are held up against an agency's annual budget or payroll. With a $213 million budget the worst case scenario OPEB liability created by blending is less than 15/100 of a per cent.

These numbers are totally insignificant in assessing your credit rating. They might as well be zero. You are more likely to suffer bond rating problems with outstanding lawsuits that might result in re-establishing your old OPEB liability or possibly create a more urgent financial obligation.

According to your consultants work, our proposal minimizes your OPEB liability with it going away entirely in 2014.

THE DEVELOPMENT OF RATES AND ANY DIRECT SUBSIDIES INHERRENT WITHIN THE RATES.

We have accomplished that work and it is part of our proposal. (See Attachment 1 and follow below)

COST TO THE COUNTY

Our proposal does have a cost to the county but we have done our best to keep that cost to a minimum. Keep in mind that any plan that protects your retirees from financial disaster will need to be affordable to them as well. To accomplish that goal, there must be some cost to the county. There are actually some positive reasons supporting the county accepting a share of the plan costs. They are:

- With the county contributing to an active Retiree Health Plan, the county can continue to apply and receive ERRP funds from the federal government. You currently have a claim for $150,000+ that will be likely not be funded by the feds without an active plan.
- Your consultant has included in the retiree rate calculations the current shortfall in the Retiree Health Plan. This $113,000 current shortfall will be solely the county's cost if the plan closes or is not appropriately funded.
- The blended plan premium includes $42 per month for dental and vision benefits that retirees will not have access to. This results in retirees paying $37,400 into the plan that they will not be utilizing thus reducing the county cost by that amount.

- An open plan serving non-Medicare retirees means $300,000 in recoverable funding from the above three items. Those funds will not be available if the county closes the plan or does not in some pay for part of the plan. Under our proposal, those dollars credited against your cost of $293,000 offset your likely cost in the first year to something close to 0 dollars.
- You have spent $163,000 for a 12 month reinsurance policy for the retiree plan. Closing the plan or underfunding it will not allow you to recoup that cost with premium dollars.
- The county accepting the $293,000 cost can lessen the concerns raised in March of 2010 by the retirement administrator. This eventually contributed to the retirement board's action to withhold the final designated payment of $658,000 to the retiree health care trust.
- It appears, without a plan in place or a plan that has the county sharing some of the expense, the retirement board will continue to question the legality of turning the withheld retiree health benefit trust funds over to the county.
- A blended plan has the ability to keep county costs stable. Wild swings may result from the current plan with an insufficient size pool of enrollees.
- Another potential savings to the county is in reduced administrative expenses. There will no longer be a need to conduct two open enrollments, manage different plan documents, pay for two projections on premiums and other plan duplications. While we understand that many of the administrative costs are per person, many administrative costs associated with managing two separate plans will be eliminated.
- The result, administrative costs will be lessened.
- There are other numerous financial factors that have yet to be examined that would in a blended plan with the county sharing some costs would be a benefit to the county offsetting costs.

THE HURDLES ADDRESSED

The Hurdles stated in the Mercer report have been addressed by the workgroup. Not all the hurdles to blending have been eliminated but they have been broken down to what can be understood better, worked through or shown to be insignificant.

The final work to remove those hurdles should be able to be accomplished in reasonably short time and depends a great deal on the attitude of the people involved in doing that.

The manner in which these have been addressed should allow the BOS to make a decision to move forward with the blending proposal as recommended by the workgroup.

CEO RECOMMENDED ACTION

On one level we applaud your CEOs recommended action. Rescinding your action to end the Retiree Health Plan benefit would correct that was ill-advised. That cancelation triggers so many unintended consequences to the county, its employees and its retirees that no one is sure what the fiscal or legal ramifications are.

What we have found during the workgroup sessions and what we are sure of, is that discontinuing the plan closes the door to the county recovering hundreds of thousands of dollars from the ERRP as well as ending any hope of getting the $658,000 from the retirement board.

The recommendation to continue the current Retiree Health Plan in its current form does offer some hope to a limited number of retirees and their spouses. The serious down side to that current plan is retirees need to have significant retirement incomes to "afford" the costly new premiums.

The current plan fails severely in a number very important ways:

- It does not address the affordability issue for folks on very limited incomes who will not be able to find other coverage due to pre-existing conditions.
- For most Mendocino County retirees, the new premium would cost them at least 50% of their monthly pension if not all of it or many cases.
- For a significant number of retirees, the premium is beyond their pension amount.
- Add in copays and deductibles and just imagine the financial impact.
- These same folks are unlikely to be able to work to supplement their incomes to cover the higher costs. Remember we are talking about people who have reached the end of their working lives and now live on incomes that are in many instances barely sufficient to pay housing, food, transportation and their current medical costs.
- Many retirees have been declared to be disabled while in county employment and need coverage to deal with those disabilities.
- Continuing the current plan does not limit the county's fiscal responsibility for expenses beyond premiums.
- Because the county is not intending making any payments to the plan, the door is closed to further ERRP payments from the Federal Health care fund.
- The current plan is not sustainable. That is obvious by the attrition rate over the past 3 years and the small pool of enrollees that is left to fund it. They need to be part of a bigger pool.

RETIREE HEALTH PLAN WORKGROUP RECOMMENADTION

Why is Alternative A the preferred alternative for retirees and the County?

Due to pre-existing conditions, at least 60 retirees who cannot get health insurance on the open market will have the security of health coverage until they reach Medicare age or until Federal Health Care reform kicks in.

Other key points to this plan are:

- Blended, the Retiree Health Plan will no longer face a death spiral.
- The county can better manage its health plan costs with one plan.
- 74 people are added to a pool of over 1600. That's only an additional 4%.
- You will have fulfilled the promises to and expectations of some of your longest term dedicated employees – many of who made very serious life and career decisions based on the promise of health insurance in retirement.
- It is not free to retirees but it is 33% less expensive than the program you voted to end in November and the CEO now recommends you keep.
- The Alternate A plan has the retirees paying a substantial portion of the cost for the plan.
- The county can continue to participate in the ERRP.
- The cost is important to consider for these retirees who can no longer work to supplement their retirement. The recommended plan cost to retirees is nearly the same as the premium paid for the 2011 plan year.
- This plan is a serious compromise from the promises that the County of Mendocino made to employees that they would have health insurance furnished in retirement by their employer.
- Our recommendation also deals with the expectations of the 293, nearly 30%, of current employees of the county that are eligible by the rules and policies the County of Mendocino has put in their numerous retirement documents, employee manuals, and health plan documents.
- Alternative A is a serious compromise.

CALCULATING THE COST OF THE OF KEEPING THE CURRENT PLAN OR DISCONTINUING IT.

What follows is a list of unintended consequences of cancelling or making the Retiree Health Plan unaffordable. Many can be specifically calculated, some estimated and some only discussed but none of appear to be positives to the county. None of them should be denied as factors that will increase costs to the county if the BOS does not furnish a Retiree Health Plan that is sustainable and affordable.

If the 293 current employees who are eligible for the Retiree Health Plan upon retirement work until they are 65 before retiring, the result will be:

- Pension increases of a minimum of 19%, at what cost to the county?
- Increased utilization of the active health plan in which the county pays 75% of the costs rather than the employee being in the Retiree Health Plan where we propose the county pay less than 30% of the cost.
- Fewer retirements will decrease the county's ability to make new hires in less costly pension and benefit tiers.
- Payroll cost will increase due to longevity pay and regular increases to already higher salaries.
- Higher county costs and loss of productivity for employees who have accrued larger vacation allowances.
- Higher county costs and loss of productivity due to missed work because of older worker health related absences.
- The cost of paying out sick pay for older worker's illness.
- Potential for increased worker compensation claims due to older workers being less physically fit to performs some tasks such as in the Transportation Department, General Services, and Garage employees perform..
- The general lack of productivity due the malaise created by an employer who appears to not be able to trusted to full fill their obligations to current employees and past employees.

Some of these issues will have a significant dollar impact on the county but they have not been looked at. They should be analyzed and discussed but not today. We are confident they would add more weight to the recommended alternative of the work group.

Respectfully submitted by the retired members of the Retiree Health Plan Benefit Work Group,

Sue Thornhill, Marsha Wharff, Carol Mordhorst and Richard Shoemaker

Retiree Health Plan Workgroup - Response to Retiree Representatives 1/24/12 Blending Proposal

Retiree Health Plan Workgroup Position/Comments	Human Resources Comments
Meet and Confer	
We have seen no written opinions that any blending proposal requires Meet & Confer. We continue to believe that is not required when there is no change to labor agreements, working conditions or benefits.	Human Resources received confirmation that the proposed blending option requires Meet & Confer from: Rick Haeg, County Labor and Employee Relations Consultant, and Meyers/Nave Law firm, as well as from our County Counsel. Health Benefits are part of Bargaining Unit MOU's.
Stabilization Reserve	
The rates that were used to determine the premium to be paid by retirees in the blended system include an amount previously set by the BOS that goes to the stabilization fund.	The Retiree Health Plan does not have a stabilization reserve. Retiree Health 2012 premium rates do not include funding for a stabilization reserve
The $922 retiree rate used to create the proposed blended premium contains an additional amount that would pay back the county's current funding shortfall. If when that shortfall is paid back and if that amount is not removed from the retiree premium calculation, retirees would be paying much more toward a reserve than current employees.	The $922.56 premium rate includes pay back of an estimated Retiree Health Plan shortfall of $113,000 (as of 12/31/11). The rate assumes shortfall recouped over 12 month period. If there is no shortfall in 2012, rates are adjusted accordingly for 2013, conversely if there is a projected shortfall for 2013, rates will reflect a deficit pay back formula.
OPEB Liability	
Most accepted measures of OPEB liability are held up against an agency's annual budget or payroll. With a $213 million budget the worst case scenario OPEB liability created by blending is less than 15/100 of a per cent. These numbers are totally insignificant in assessing your credit rating. They might as well be zero.	OPEB liability impacts are minimal due to plan termination on December 31, 2013, however there is potential for some impact. Board and staff's concern related to possible impacts to County bond rating. Bond raters have indicated that impacts could occur if liability were over $600,000. AON, Retiree Health Plan actuarial, estimates OPEB liability through 12/31/13 between $608,000 and $681,000 based on the number of enrollees. There is zero OPEB liability under the current plan design i.e. separate retiree and active health plans.
Cost to County	
You currently have a claim for $150,000+ that will be likely not be funded by the feds without an active plan. (ERRP)	ERRP status is uncertain; legislation is pending to renew funding to the program. The County needs an active retiree plan in order to collect ERRP funds, so if the plan ends before receipt of pending funds the County will lose the payment.
Your consultant has included in the retiree rate calculations the current shortfall in the Retiree Health Plan. This $113,000 current shortfall will be solely the county's cost if the plan closes or is not appropriately funded.	The County will be liable for any deficit which could go up or down depending on claims experience and ERRP funding. In addition, the County could have a higher run-out claims cost not collected through premiums at the time the plan ends as well as

	any other deficit since December 2011. The County also will be paying for Medicare Eligible Retirees HRA contributions from October-December in the amount of $105,432 which allowed for the noticing time period for discontinuance of that plan.
The blended plan premium includes $42 per month for dental and vision benefits that retirees will not have access to. This results in retirees paying $37,400 into the plan that they will not be utilizing thus reducing the county cost by that amount.	Active & Retiree rates were determined separately. Retiree rate of $922.56 is based on their specific plan design and does not include cost for dental and vision. Blending reduced the amount retiree premium through subsidizing a portion of the plan costs. The retirees are not paying an "extra" $37,500 for dental and vision which would then be available to reduce county costs.
An open plan serving non-Medicare retirees means $300,000 in recoverable funding from the above three items. (ERRP, deficit collection, dental/vision) Those funds will not be available if the county closes the plan or does not in some pay for part of the plan. Under our proposal, those dollars credited against your cost of $293,000 offset your likely cost in the first year to something close to 0 dollars.	The $113,000 shortfall included in retiree rates repays prior deficit and would not credit against the cost of County subsidy to the blending plan. The $37,500 costs of dental and vision is not paid by the retiree so also would not credit against the cost of the County subsidy. ERRP funding is uncertain, currently $151,000 pending payment approval.
You have spent $163,000 for a 12 month reinsurance policy for the retiree plan. Closing the plan or under funding it will not allow you to recoup that cost with premium dollars.	The 12 month contract is for $163,000. Payments are made monthly based on number of participants. In the event of plan closure, the contract will be renegotiated. However, the County will need to carry some level of stop loss coverage for claims run-out period (approximately 1 year), not necessarily at $163,000.
Current Plan	
Many retirees have been declared to be disabled while in county employment and need coverage to deal with those disabilities.	Unable to specifically quantify # of employees who obtained disability retirements also qualifying for retiree health benefits due to HIPPA confidentiality regulations. However, in general the following Non-Service Connected Disability (**NSCD**) & Service Connected Disability (**SCD**) information was provided by the Retirement Office: Over 50 / Under 50 2009: 0 / 2 NSCD 1 / 2 SCD 2010: 2 / 0 NSCD 1 / 0 SCD 2011: 1 / 1 NSCD 2 / 0 SCD
EERP	
With the county contributing to an active Retiree Health Plan, the county can continue to apply and receive ERRP funds from the federal government.	Only able to continue to receive EERP if funding extended through future/pending legislation.

What we have found during the workgroup sessions and what we are sure of, is that discontinuing the plan closes the door to the county recovering hundreds of thousands of dollars from the ERRP as well as ending any hope of getting the $658,000 from the retirement board.	See explanation above. In addition, ERRP fund amounts have decreased since 2010 due to the significant reduction in numbers of retirees participating in the plan. It is unlikely the $658,000 will be released by the Retirement Association; if funds are released it will require BOS action to determine usage.
Because the county is not intending making any payments to the plan, the door is closed to further ERRP payments from the Federal Health care fund.	If the County continues retiree health plan eligibility will continue as long as the program is funded by legislation (see above). Per Keenan, if actual plan expenses exceed amount collected (i.e. County liability), that amount is considered a county contribution which will meet ERRP eligibility criteria.
The county can continue to participate in the ERRP.	Not unless additional funding is provided by Federal legislation; the current funding allocation is exhausted.
Cost of Keeping Current Plan or Discontinuing It	
If the 293 current employees who are eligible for the Retiree Health Plan upon retirement work until they are 65 before retiring, the result will be:	In general the following comments discount the value of older employees and their desire to continue to work for reasons other than health insurance. **County Health Plan Subscriber Census:** 192 employees - ages 20-39 403 employees - ages 40-54 323 employees - ages 55 -64 38 employees - ages 65-74 3 employees - ages 75+
• Fewer retirements will decrease the county's ability to make new hires in less costly pension and benefit tiers.	See census above. It is difficult to quantify potential savings from new, presumably younger, less experienced employees when take into account value of older workers institutional memory, skills & experience. In addition, there are sometimes significant training costs associated with new employees.
• Payroll cost will increase due to longevity pay and regular increases to already higher salaries	Longevity pay is not offered to all Bargaining Units; 15 non- DSA employees currently receive longevity pay. Merit or step increases are granted, provided conditions are met, each year for 5 years regardless of age or salary of employee.
• Higher county costs and loss of productivity for employees who have accrued larger vacation allowances.	Potential loss of productivity could result in higher costs, however this potential is linked to all vacations and is difficult to quantify. Employees are budgeted at their position equivalent i.e. full time or part time, so there are no extra budget costs associated with vacation pay. There is potential higher cost to County to pay out vacation to long term employees with larger vacation allowances if they retiree or terminate. 24/7 operations/mandates require backfill to cover for vacation which can create higher costs.
• Higher county costs and loss of productivity due to missed work because of older worker health related	Potential loss of productivity could result in higher costs, however this potential is linked to all health related leaves and is difficult to

absences.	quantify. Departments may need to fill behind a long term leave; however a long term leave generally falls into leave without pay status. As stated above employees are budgeted at their position equivalent i.e. full time 40 hours or part time hours, so there are no extra budget costs associated with sick leave. 24/7 operations/mandates require backfill to cover for sick leave which can create higher costs. An alternate consideration is that the younger work force may be more likely to have more loss of work time and productivity due to absences associated with obligations to their family and/or children.
• The cost of paying out sick pay for older worker's illness.	As stated above employees are budgeted at their position equivalent i.e. full time 40 hours or part time hours, so there are no extra budget costs for paying sick leave.
• Potential for increased worker compensation claims due to older workers being less physically fit to performs some tasks such as in the Transportation Department, General Services, and Garage employees perform.	WC data indicates that claims are spread across the age range with the "older" work force experiencing fewer claims than their younger counterparts: 26% of County workforce ages 41- 51 account for 42% of claims cost in contrast 473 or 49% of County workforce ages 51-64 account for 41% of claims cost.
• The general lack of productivity due the malaise created by an employer who appears to not be able to trusted to full fill their obligations to current employees and past employees.	General lack of productivity due to malaise is extremely difficult to quantify; the workforce is experiencing many challenges related to the economic downturn.

ACTIVE & NON-MEDICARE ELIGIBLE RETIREE HEALTH PLANS
PARTICIPANTS & RATES
CALENDAR (PLAN) YEARS 2011 & 2012

2011 (Mercer)		Actives				Retirees	
		Plan I	Rates	Plan II	Rates	Plan II	Rates
EE/Retiree Only		51	$ 881	461	$ 556	93	$ 819
EE/Retiree + Spouse		24	$ 1,930	216	$ 1,239	22	$ 1,638
EE + Child(ren)		14	$ 1,535	123	$ 991		
EE + Family		18	$ 2,626	158	$ 1,703		
Total		107		958		115	

2012 (Keenan)		Actives				Retirees (3/1/12)	
		Plan I	Rates	Plan II	Rates	Plan II	Rates
EE/Retiree Only		47	$ 881	433	$ 556.38	45	$ 923
EE/Retiree + Spouse		29	$ 1,930	186	$1,239.38	9	$ 1,845
EE + Child(ren)		10	$ 1,535	126	$ 991.47		
EE + Family		11	$ 2,626	162	$1,703.11		
Total		97		907		54	

Non-Medicare Eligible Retirees - 2012 Rates
Rate Determination Factors: Rates are based on actuarial analysis of claims experience, projected enrollment, trend factors in the Northern California region, administrative costs, stop loss coverage cost, and plan design. Keenan and Associates non-Medicare retiree renewal rating for 2012 was based on the claims experience of 120 lives. Keenan believes keeping the $922 Per Retiree Per Month (PRPM) rate is the appropriate recommendation for the remaining retirees participating in the plan.

ACTIVE & NON-MEDICARE ELIGIBLE RETIREE HEALTH PLANS
PARTICIPANTS & RATES
CALENDAR (PLAN) YEARS 2011 & 2012

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County of Mendocino

ESTIMATED GASB Accounting Values and Present Value of OPEB Benefits Paid in 2012 and 2013 Under Various Scenarios

	120 Retirees Scenario				70 Retirees Scenario			
	Actives and Retirees Fully Blended		*Active and Retirees Separately Rated*		*Actives and Retirees Fully Blended*		*Active and Retirees Separately Rated*	
	0% Retiree Subsidy		0% Retiree Subsidy		0% Retiree Subsidy		0% Retiree Subsidy	
	2012	2013	2012	2013	2012	2013	2012	2013
Rates (Single, monthly)	$616	$672	$985	$1,074	$617	$673	$1,179	$1,285
Existing Retirees Total Enrollment *	130	113	130	113	76	66	76	66
Future Retirees Total Enrollment	14	49	14	49	14	49	14	49
County Implicit Subsidy,	**$369**	**$402**	**$0**	**$0**	**$562**	**$613**	**$0**	**$0**

* Total Enrollment = Retirees plus spouses.

GASB Accounting Basis Estimates - Potenital Future Program Only

	120 Retirees: Fully Blended	120 Retirees: Separately Rated	70 Retirees: Fully Blended	70 Retirees: Separately Rated
No Future Retirees				
6/30/2012 Present Value of County-Paid Benefit	788,000	-	705,000	-
6/30/2012 Net OPEB Obligation	-	-	-	-
Estimated ARC, FY 2013	545,000	-	487,000	-
Estimated Annual OPEB Cost, FY 2013	545,000	-	487,000	-
6/30/2013 Net OPEB Obligation	-	-	-	-
Estimated ARC, FY 2014	272,000	-	243,000	-
Estimated Annual OPEB Cost, FY 2014	272,000	-	243,000	-
6/30/2014 Net OPEB Obligation	-	-	-	-
Estimated ARC, FY 2015	-	-	-	-
Estimated Annual OPEB Cost, FY 2015	-	-	-	-
With Future Retirees				
6/30/2012 Present Value of County-Paid Benefit	1,036,000	-	1,081,953	-
6/30/2012 Net OPEB Obligation	-	-	-	-
Estimated ARC, FY 2013	716,000	-	748,000	-
Estimated Annual OPEB Cost, FY 2013	716,000	-	748,000	-
6/30/2013 Net OPEB Obligation	10,000	-	24,000	-
Estimated ARC, FY 2014	389,000	-	421,000	-
Estimated Annual OPEB Cost, FY 2014	380,000	-	398,000	-
6/30/2014 Net OPEB Obligation	1,000	-	1,000	-
Estimated ARC, FY 2015	-	-	-	-
Estimated Annual OPEB Cost, FY 2015	(1,000)	-	(1,000)	-

Assumptions:

Actives and Retirees Fully Blended means the Plan II actives and retirees pay the same monthly premium

The illustration above ignores any remaining accounting entries from the current OPEB benefit program.
Amortization period - To End of Plan Benefits (1/1/2014)
Actuarial valuations at each June 30 consider only the benefits in effect on that date.
Discount rate = 5%

State exchanges available and the County terminates retiree plan on 1/1/2014
15% fluctuation margin for separate retiree plan scenarios
30% risk adjustment load on 70 retiree scenarios
9% trend for 2012
2011 trend is the same as used by Keenan for the renewal
The relative values of the plans are based on the 2011 rates

We used Keenan's June 30, 2011 reserve calculation for early retiree medical and Rx
The rate development is based on claims information from August 2010 through July 2011 as provided by I
Age and gender mix of 70 or 120 early retirees is the same as the current group
Active employees assumed to retire in accordance with the valuation assumptions.
10% of new retirees cover spouses
Retirements occur in the middle of the year
Age and gender mix of new retirees in 2012 and 2013 is the same as exisiting retirees.
No mortality assumed

We used plan admin expense information, tier counts and 2011 rates as described in Keenan's report.
The census of active employees and early retirees was provided by the County.

Aon Hewitt
January 23, 2012

MENDOCINO COUNTY BOARD OF SUPERVISORS
ONLINE AGENDA SUMMARY

BOARD AGENDA # 7(d)

-Transmittal of electronic Agenda Summaries and associated records must be emailed to: bosagenda@co.mendocino.ca.us
-Electronic Agenda Transmission Checklist: ☒ Agenda Summary ☐ Records ☐ If applicable, list other online information below

TO: Board of Supervisors DATE: September 22, 2011

FROM: Human Resources MEETING DATE: September 27, 2011

DEPT RESOURCE: Pat Meek, HR Director PHONE: 463-4441 Present ☒ On Call ☐
Sue Goodrick, HR Manager PHONE: 463-4261 Present ☒ On Call ☐

Consent Agenda ☐ Regular Agenda ☒ Noticed Public Hearing ☐ Time Allocated for Item: 30 min

AGENDA TITLE: Presentation of the 2012 Non-Medicare Eligible Retiree Health Plan Renewal Report and Establishment of Premium Rates; and Discussion and Possible Action Regarding Coverage of Medicare Eligible Retirees Health Reimbursement Accounts (HRA) for the 90-Day Noticing Period

- **PREVIOUS BOARD/BOARD COMMITTEE ACTIONS:** On April 20, 2010, the Board authorized the transition of Medicare Eligible Retirees from the current Retiree Health Plan to individual Medicare supplemental plans through Extend Health and modification of the Non-Medicare Eligible Retiree Health Plan to mirror the Active Plan II in terms of level of benefits (medical plan only). On June 15, 2010, and July 13, 2010, staff provided updates on the Retiree Health Plan Trust Fund and Non-Medicare Eligible Retiree Health Plan. On September 28, 2010, the Board approved an increase in the County contribution towards the Non-Medicare Eligible Retiree Health Plan premiums from the Retiree Health Plan Insurance Reserve to cover increased plan costs for Plan Year 2011. On May 23, 2011, staff provided updates on the Retiree Health Plan Trust Fund and Non-Medicare Eligible Retiree Health Plan.

- **SUMMARY OF REQUEST:** On September 21, 2011, staff was informed by the Mendocino County Employees Retirement Association (MCERA)(Attachment A) that they did not intend to transfer the remaining balance in the Retiree Health Insurance Reserve ($658,653.66) to the County to offset retiree health care costs as previously anticipated. This decision was based on the legal advise of MCERA's attorney's pending legal clarification regarding compliance with the Government Code (1937 Act), Internal Revenue Code, and/or Fiduciary standards. It is not known if or when these funds may be released to the County. This funding was essential to the sustainability of the County's Medicare and Non-Medicare Eligible retirees health care contributions. While there still may be possibilities of other revenue sources (i.e. additional Early Retiree Reinsurance Program funds, stop loss reimbursements and prescription drug formulary rebates), the loss (at least temporarily) of this funding coupled with significant recent increases in claims costs (doubling over the past 2 months), have caused the fund to go into a projected deficit position. This deficit will require unbudgeted general fund monies in the amount of approximately $107,000 to fund the Medicare Eligible Retirees Health Reimbursement Account during the 90-day notification period informing them of the depletion of funds and the termination of the County's $100/month contribution (effective December 31, 2011).

- Staff further recommends that the Board direct the Auditor to establish a separate fund for the sole purpose of disbursing HRA contributions to Medicare Eligible Retirees for the next 90 days. The separation of the Medicare and Non-Medicare Eligible funding will allow for the use of Early Retiree Reinsurance funds to offset the Non-Medicare eligible claims costs.

- Staff wishes to provide the Board with an update on the fund, a recommendation for 2012 premium rates which would be fully funded by the Non-Medicare Eligible Retiree Health Plan participants (approximately 120), a possible proposal for an alternate plan design, and authorization to release the 90 day notification to the Non-Medicare eligible retirees and to Medicare Eligible retirees that the County contributions to retiree health care costs will discontinue effective December 31, 2011.

Additional information will be available on or before meeting date.

BOARD ACTION (DATE: 9/27/11): ☒ Approved ☐ Referred to ________ ☐ Other ________
RECORDS EXECUTED: ☐ Agreement: ________ ☐ Resolution: ________ ☐ Ordinance: ________ ☐ Other ________

MENDOCINO COUNTY BOARD OF SUPERVISORS

ONLINE AGENDA SUMMARY

BOARD AGENDA #_____

■ SUPPLEMENTAL INFORMATION AVAILABLE ONLINE AT: www.co.mendocino.ca.us/administration/

■ ADDITIONAL INFORMATION ON FILE WITH THE CLERK OF THE BOARD (CHECKED BY COB IF APPLICABLE): ☐

FISCAL IMPACT:

Source of Funding	Current F/Y Cost	Annual Recurring Cost	Budgeted in Current F/Y
General Fund	\$107,016.00 (343 x \$104/mth x 3mths)	N/A	Yes ☐ No ☒

■ SUPERVISORIAL DISTRICT: 1☐ 2☐ 3☐ 4☐ 5☐ All☒ ■ VOTE REQUIREMENT: Majority☒ 4/5ths☐

■ RECOMMENDED ACTION/MOTION: 1) Receive 2012 Non-Medicare Eligible Retiree Premium Renewal Report; 2) Direct staff to increase premium levels for Non-Medicare Eligible Retiree Health Plan to fully fund plan costs; 3) Authorize staff to send 90-day notification letters of Retiree Health Fund depletion to Medicare Eligible Retirees and Non-Medicare Eligible Retirees; 4) Authorize the Auditor to set up a separate account for Medicare Eligible Retirees HRA contributions in the amount of \$107,016, and direct staff to bring back recommendations to finance Medicare Eligible Retirees HRA contributions for the 90-day noticing period.

■ ALTERNATIVES: Offer Alternative Plan Design at a lessor to-be-determined premium level or provide other direction to staff; or increase general fund contribution to Retiree Health to cover costs of plan; or direct staff to bring item back to the Board within 30 days for further discussion and possible action.

■ CEO REVIEW (NAME): Carmel J. Angelo PHONE: 463-4441

RECOMMENDATION: Agree ☒ Disagree ☐ No Opinion ☐ Alternate ☐ Staff Report Attached ☐

James M. Andersen
Retirement Administrator

Telephone: (707) 463-4328
(707) 467-6473
Fax: (707) 467-6472

MENDOCINO COUNTY
EMPLOYEES' RETIREMENT ASSOCIATION
625-B KINGS COURT
UKIAH, CALIFORNIA 95482-5027

Date:	September 21, 2011
To:	Pat Meek, Human Resources Director Sue Goodrick, Human Resources Manager
From:	Jim Andersen, Retirement Administrator
Subject:	Remaining Balance in the Retiree Health Insurance Reserve

Introduction

In January of 2011, the Mendocino County Employees' Retirement Association (MCERA) submitted an application for a determination letter and a related voluntary correction program (VCP) filing to the Internal Revenue Service (IRS). The determination letter is a formal "determination" by the IRS that the terms of MCERA (as documented in the County Employees' Retirement Law of 1937 (the '37 Act) and other official MCERA actions) are in substantial compliance with the Internal Revenue Code (IRC).

The IRS has strongly encouraged all public sector retirement systems such as MCERA to file an application for an IRS determination letter on the tax qualified status of the system. As part of such a filing, if the retirement system determines that there are issues about the tax rules as applied to that system, the IRS also encourages the system to file under its VCP procedure. MCERA, as many other public sector systems across the country and many other California county systems operating under the '37 Act, made these filings last January. The IRS has begun its review of applications filed by public retirement systems and under its normal process will respond to MCERA regarding its filings. Hanson Bridgett LLP was retained to represent MCERA in its IRS filings and is representing MCERA in any discussions with the IRS.

In the VCP filing process, MCERA describes areas where we may have compliance issues, and suggests possible corrections for the IRS to consider. This two pronged approach is meant to be a voluntary and cooperative method of securing a determination letter from the IRS, correcting any problematic issues, and retaining the tax qualified status of the plan. As fiduciaries of the pension plan, there is arguably no more critical responsibility than ensuring the tax qualified status of the plan; thereby ensuring all contributions to the plan and earnings on the assets will remain tax deferred. It is critical, therefore, that the MCERA Board work closely with its attorneys to best support discussions with the IRS related to MCERA's filings.

Since filing the application for a determination letter and related VCP, MCERA has entered into agreements with a new actuary, The Segal Company (Segal), and a new external financial auditor, GALLINA LLP (GALLINA). The actuary and external auditor are key advisors regarding the policies and practices of MCERA, and new advisors may offer new perspectives on historical activities of MCERA and the information contained in the application for a determination letter and the VCP filing.

Discussion

In the VCP filing submitted in January of 2011, MCERA made factual statements based on its understanding at that time. MCERA stated that it had provided retiree health benefits based on "excess earnings" determined in a manner that was in compliance with the '37 Act. MCERA also noted that the IRS had issued a favorable determination letter for MCERA's plan document in August of 1987 when the relevant sections of the CERL were in place, indicating that MCERA was "not in noncompliance" at that time with the rules for providing retiree health benefits.

In light of the recent change in actuarial and accounting advisors, MCERA, in consultation with Hanson Bridgett, determined it was appropriate to re-examine statements contained in the VCP application to determine their continued factual correctness. While MCERA implemented historical practices in good faith based upon the advice of its advisors at the time, the following are key findings of the re-examination process conducted over the past two months:

1. The balance of excess earnings that have been set aside to pay for retiree health benefits must be shown as a liability on the actuarial balance sheet in each year's valuation study. Including the funds set aside for retiree health care as a liability will increase Unfunded Accrued Actuarial Liability (UAAL) and the employer contribution rate. While the funds may be used for retiree medical benefits under Government Code Section 31592.4, the best practice would be to calculate UAAL and the employer contribution rate with and without funds set aside for retiree health benefits, and to then allow discussion prior to making an informed decision on whether or not to designate the funds for pension liabilities or retiree health benefits. Staff also found that beginning in the fiscal year ended June 30, 2006, the balance in the retiree health account has not been shown as a liability on the actuarial balance sheet. We believe that this may have resulted in an understatement of UAAL and employer rates from 2007/08 fiscal year forward. Since each new actuarial valuation is a "snapshot in time," any historical understatement of UAAL and rates should be corrected in the June 30, 2011, valuation being prepared by Segal.

2. The use of excess earnings for retiree health benefits is limited (subordinate to funding pension liabilities) per Section 401(h) of the IRC. MCERA has calculated the 401(h) limit, which Segal has reviewed, and determined that the amounts paid for retiree medical benefits through the use of excess earnings has satisfied the 401(h) limit. Nonetheless, best practice would result in the 401(h) limit being calculated each fiscal year, and the results being part of the annual process to determine if excess earnings should be used to fund pension liabilities or retiree health benefits. MCERA staff found in performing the calculations required for the IRS 401(h) limit that the percent of aggregate funds set aside for retiree health benefits compared to funds for pension benefits steadily rose from 13.04% in 1998/99 to 22.18% in 2009/10.

3. The '37 Act only allows for the recognition and posting of excess earnings when reserve accounts have been posted at the assumed actuarial rate (8%) and a contingency fund of 1% of assets is maintained. In 2005/06, MCERA's records show that $9,557,912 was

recognized as excess earnings, while only 5.1% was posted to employee, employer and retiree reserves. While this posting was done in good faith reliance on actuarial and auditing advisors at the time, it raises the question as to whether or not the '37 Act was complied with in that fiscal year.

Conclusion

As noted in the introduction, MCERA's primary objective is to provide the appropriate support for our attorneys as they begin discussions with the IRS regarding our application for a determination letter and VCP filing, and ultimately, to maintain the tax qualified status of the pension plan. Maintaining the tax-qualified status of MCERA is in the best interests of all concerned. We must communicate completely with the IRS regarding any new findings and continue our on-going efforts to strengthen MCERA's compliance with the '37 Act and the IRC.

Based upon those broader goals, Hanson Bridgett has recommended the following actions:

1. Submitting a supplemental letter to the IRS containing new findings and/or clarification of statements made in the applications for a determination letter and VCP.

2. Implementing best practices (including consideration of certain model policies that have been developed in coordination with other '37 Act systems) for financial reporting and disclosure in decision making processes.

3. Requesting that our new financial advisors, Segal and GALLINA, review the recognition of excess earnings from 1998 forward and provide findings and recommendations.

4. Refraining from distributing the $658,654 (which was determined based on the calculation of excess earnings that will be the subject of the further review) that remains in the retiree health insurance account until the review is completed by our new advisors.

The Board of MCERA is acutely aware that refraining from using the remaining balance of $658,654 for retiree health benefits will impact anticipated financing for retiree health benefits and may result in program changes by the County. However, as stated in the introduction, as fiduciaries, the Board's first commitment must be to ensuring that the pension plan retains its tax qualified status and continues forward with its primary purpose of meeting pension obligations.

JA

Copy Board of Retirement
Carmel Angelo, CEO, Mendocino County
Judith Boyette, Partner, Hanson Bridgett LLP
Andy Yeung, Vice President and Associate Actuary, The Segal Company
Crystal Ekanayake, Partner, CEBS, GALLINA LLP

	Current Rate	New Rate	Difference	% increase
Monthly Premium	$530.78	$922.56	$391.78	73.80%
12 Month Premium Cost	$6,369.36	$11,070.72	$4,701.36	74.00%
Deductible	$500.00	$1,000.00	$500.00	100%
Total Cost to retirees before insurance coverage kicks in.	$6,869.36	$12,070.72	$5,201.36	76%
Out of pocket (possible)	$4,000.00	$6,000.00	$2,000.00	50%
Total Annual Costs	$10,869.36	$18,070.72	$7,201.36	67 ~~76~~%
Medical co pay increase	80% & 60%	70% & 50%	14%	14%
Drug co pay Increases	$10 & $20	$20 & $40	100%	100%

Not only are these co pays a cost increase but it will cause the acceleration of the out of pocket expenses of retirees so it guarantees they will reach their new $6,000 out of pocket limits in the same time frame they used to reach their $4,000 out of pocket limit.

Average pension?	$22,500		
Basic Health insurance costs without any service as a % of retirement based on $22,500	48%	81%	69%

Non- Medicare Mendocino County Retiree Benefit Coverage Proposal

County of Mendocino

2012 Non-Medicare Retiree Benefit Coverage Renewal Projection Report

Presented by:

E. Peter McNamara, Sr. Vice President
Jovita "JJ" Juanillo, Sr. Vice President
Michael Ahn, Asst. Vice President
Christine Hough, Vice President, FSA, MAAA

License No. 0451271

Innovative Solutions. Enduring Principles.

Keenan & Associates

Contents

Data Sources

- *Delta Health Systems* – Self-Funded Medical Experience, Enrollment Information, Large Claims Data, Claims Lag Reports, Early Retiree Reinsurance Program Subsidy Data, and Utilization Reports
- *Medco Prescription Plan Data and Information* – Prescription Plan Enrollment, Experience Data, Utilization Data, and Rebate Information
- *County of Mendocino Human Resources Department* – Census Data, PPO Plan Descriptions, Stop Loss Contract, Provider Network Agreements, and Budget and Expense Reports

Scope of Work

- As part of Keenan & Associates' ("Keenan") benefit consulting agreement with the County of Mendocino ("County"), Keenan is hereby providing the renewal cost projections for the plan year 2012 for Non-Medicare retiree benefit coverages. This report also includes the incurred but not reported (IBNR) claim reserve projections.

Executive Summary

- This report presents the benefit coverage renewal projections and reserve estimates for the plan year starting January 1, 2012 for the County of Mendocino's Non-Medicare retiree segment.
- Based upon our analysis of the overall plan experience and expenses, we recommend a 12.68 percent rate increase in 2012. The total projected per retiree per month cost is $922.56 versus $818.78 in 2011 plan year. It is important to note that the plan's claim costs and expenses are expected to increase in 2012.
- With the recommended 2012 increase, the Non-Medicare retiree's out-of-pocket increases from $530.78 to $922.56 or 73.8% increase. This reflects the cost increase from 2011 plan year where the County contributed $288.00 of $818.78 Non-Medicare retiree monthly plan cost.
- For the Plan Year 2011, we estimated the plan will be in deficit by approximately $98,292 as of December 31, 2011.

Executive Summary

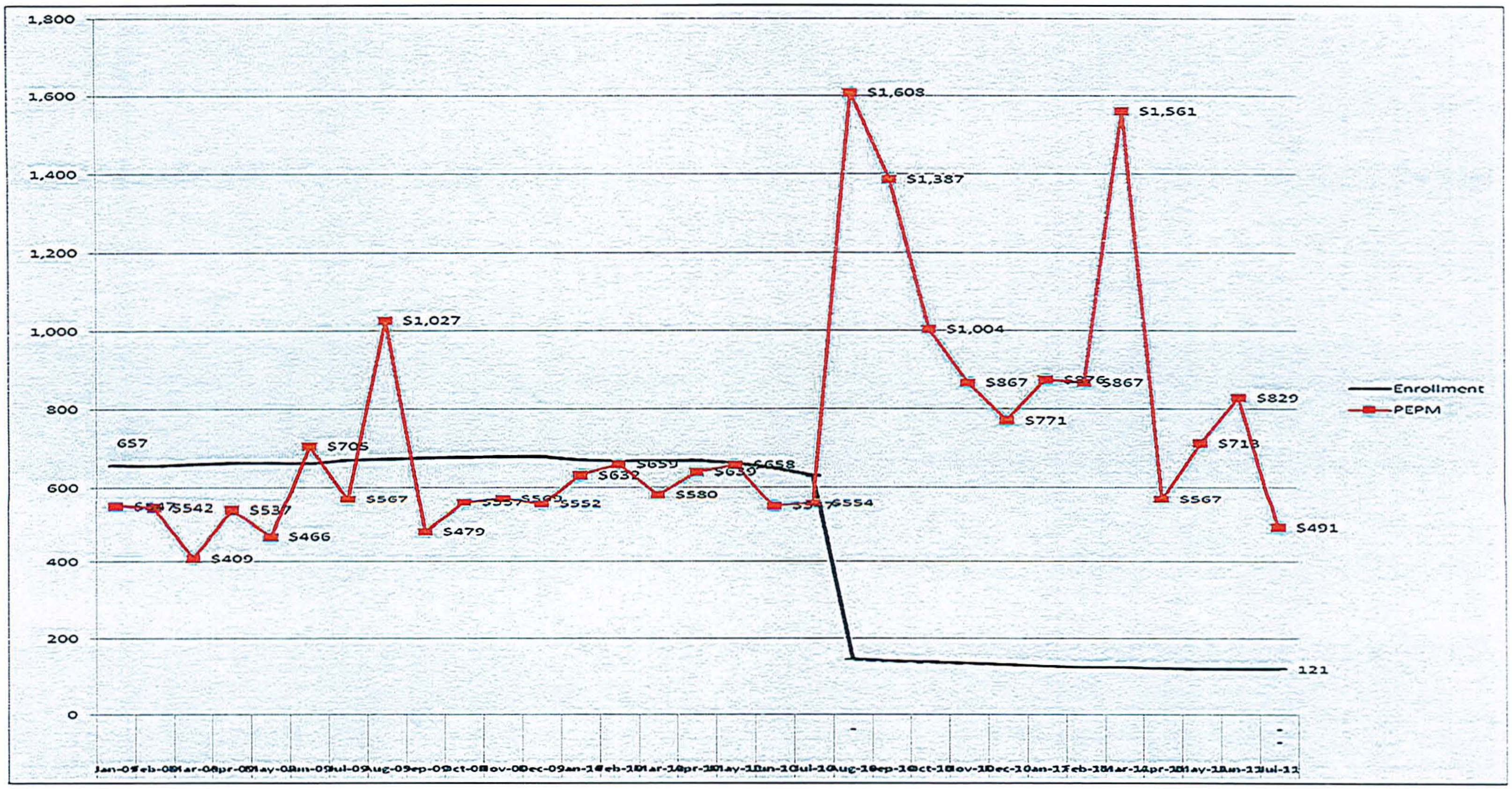
- Based on our analysis, the estimated incurred but not reported (IBNR) claims is approximately $125,788 as of December 31, 2011.
- We conclude, based upon our analysis and without recommended plan changes, that the County of Mendocino implement a 12.68% rate increase for the Plan Year 2012.
- We recommend the County of Mendocino to implement the recommended plan changes to mitigate the 12.68% rate increase in 2012 Plan Year. If the County accepted all the recommended plan changes, it allows for a no rate increase and the Non-Medicare retiree's out-of-pocket will increase from $530.78 per month to $818.78 or 54.2% increase.

Enrollment & Claim Cost Overview

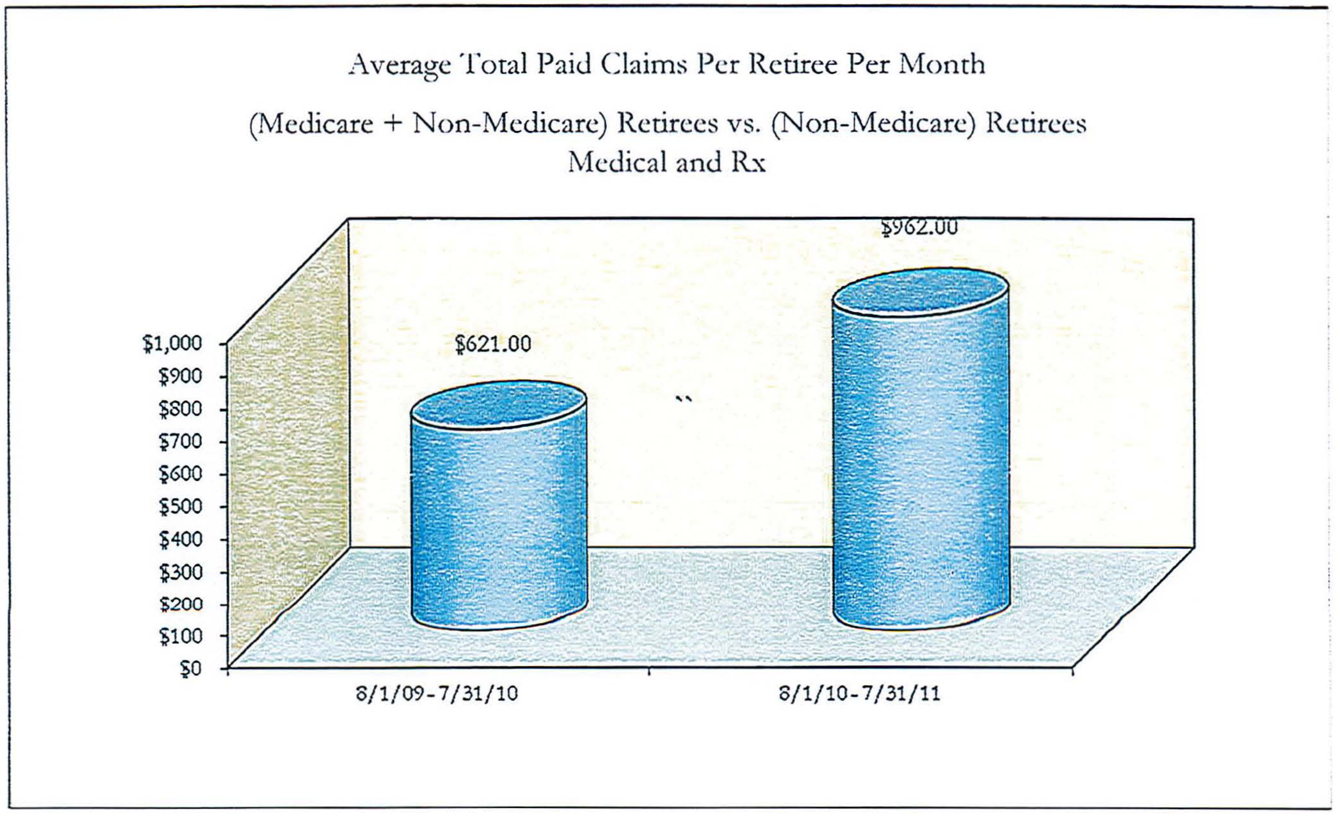
- The enrollment for the County of Mendocino has dropped significantly over the past two years while the claims on an average basis continue to increase.
- The average retiree monthly enrollment for the County of Mendocino dropped 82 percent from 657 total retirees (Medicare and Non-Medicare) in January 2009 to 121 Non-Medicare retirees in July 2011 (page 8).
- The monthly claim cost per Non-Medicare retiree during the recent 12 months, 8/1/10 - 7/31/11, is $962. This compares to the prior 12 months, 8/1/09 - 7/31/10, retiree (Medicare and Non-Medicare) monthly claim cost of $621. This represents a monthly increase of $341 per covered retiree or 55 percent over the past two years (page 9).

Enrollment & Claim Cost Overview (continued)

Monthly Enrollment & Per Retiree Per Month (PRPM) Claim Cost



Enrollment & Claim Cost Overview (continued)



Renewal Projections

Total Cost Projection Overview

- Keenan applied a standard experience rating methodology in developing the Claims Projection for Plan Years 2012. This methodology is similar to what has been applied by the prior consultant in the previous years. The calculation development and detail are provided in the following pages.

Total Cost Projection Detail

- The components of the claim projection development are described below:
  - *Paid Claims.* We utilized data from the most recent twelve months of paid claims for each coverage as the basis of our projections. These are provided on a month-by-month basis so that we can determine any significant patterns or trends that might impact the projection. The Non-Medicare retiree enrollment corresponding to the claim experience period is also utilized to develop per retiree funding levels.
  - *Large Claims Adjustment.* The paid claims were adjusted to extract claims in excess of the Specific Stop-Loss level: $125,000.
  - *Non-Medicare Retiree Exposure.* We utilized the most recent 12 months enrollment, lagged two months, to determine the per Non-Medicare retiree paid claims for each coverage.
  - *Plan Design Adjustment.* Adjustments were made to reflect Health Care Reform changes for the Plan Year 2012: i.e. extended children coverage to age 26; no lifetime maximum, 100% preventive care coverage, etc

Total Cost Projection Detail (continued)

- *Trend Factor.* We applied a trend factor to the Incurred Claims based on Keenan & Associates' "book of business" trend factors in the Northern California region. Trend is a percentage increase used to reflect the projected rise in healthcare costs. Calculation factors include inflation, utilization, technology and geographic area. The result is the Projected Claims for the upcoming policy year.
- *Projected Monthly Enrollment.* The most recent enrollment as of July 2011 was used to project the aggregated claims for the future period starting January 1, 2012.

Total Cost Projection Detail (continued)

- The components of the expense projection development are described below:
  - *County Costs.* This data and assumed future costs of three percent were included in the calculation and discussed with the County.
  - *Reinsurance Costs.* We assumed that reinsurance or excess stop loss coverage for 2012 will be marketed and negotiated with existing and potential vendors. An increase of ten percent was included in the expense illustration.
  - *Plan Administration and Cost Containment.* The plan administration and cost containment increase included is three percent (0 percent for FSA).

Total Cost Projection Detail (continued)

- *PPO Network.* The PPO Network increase included is three percent.
- *Health Plan Consulting.* No increase is assumed for 2012 and succeeding years.
- *Prescription Drug Rebate.* The rebate amount included is 7.59 percent of total prescription claims and $82,964 received September 2011.
- *Wellness Program.* There is no cost increase anticipated for the wellness program.

- The above components of the claims and expense projection were added to determine the total plan expenses for the Plan Year 2012.
- A reserve requirement was added to the plan costs.
- ERRP credit of $334,168 was applied to the 2011 Plan Year accounting.

Total Cost Projection Detail (continued)

- The projected Total Non-Medicare Retiree Cost is determined using the various components of claims and expenses. The Total Current Non-Medicare Retiree revenue is applied against the Total Non-Medicare Retiree cost resulting in a rate action of 12.68 percent increase (page 18 and 19).
- The Reserve Projection was included in the calculation of Total Non-Medicare Retiree Costs.
- The Total Non-Medicare Retiree Cost Without Fund Transfer requires a 12.68 percent increase for Plan Year 2012. This includes the Incurred But Not Reported claims reserve. A deficit amount of $98,292 is expected by December 31, 2011.

Total Cost Projection Detail (continued)

- A Fund Balance Exhibit (page 20) is provided to show the impact of with and without $658,653 fund transfer to the total costs and plan position by December 31, 2011.

Total Cost Projection Detail – Without Fund Transfer

Non-Medicare Eligible Retirees		Medical		Rx		Total
Paid Claims (8/1/10 - 7/31/11)	$	1,143,887	$	364,914	$	1,508,801
Large Claims Credit	$	-	$	-	$	-
Plan Adjustment Factor		0.71%		0.71%		0.71%
Overall Adjusted Paid Claims	$	1,151,990	$	367,499	$	1,519,488
Retirees Exposure[1]		2,583		2,583		2,583
Paid Claims/EE/Month	$	445.99	$	142.28	$	588.26
Trend		9.50%		9.00%		
Months of Trend		17		17		17
Trend Factor		1.1372		1.1299		
Claims Fluctuation Margin[2]		1.0500		1.0500		
2012 Projected Claims PRPM	$	532.54	$	168.79	$	701.33
Projected Monthly Retirees[3]		121		121		121
2012 Projected Claims	$	773,244	$	245,080	$	1,018,325
Expenses[4]						
- Stop Loss ($125,000 Specific; 125% Aggregate)	$	284,004		-	$	284,004
- County of Mendocino - Administration	$	29,355		-	$	29,355
- DHS Administration	$	27,225		-	$	27,225
- Foundation - PPO Access	$	2,178		-	$	2,178
- Blue Cross - PPO Access	$	20,517		-	$	20,517
- DHS Cost Containment	$	5,082		-	$	5,082
- DHS Nurseline	$	1,379		-	$	1,379
- Consulting Fees	$	3,000		-	$	3,000
- Prescription Drug Rebates[5]		-	$	(101,557)	$	(101,557)
Total Expenses	$	372,740	$	(101,557)	$	271,183

Total Cost Projection Detail (continued)

Total Claim Costs & Expenses	$ 1,145,984	$ 143,523	$ 1,289,508
2012 Reserve Requirement	$ 103,686	$ 14,139	$ 117,825
Stabilization Reserve - 3 Months	-	-	-
ERRP Reimbursement Revenue [6]	-	-	-
2012 Total Retiree Projected Cost	$ 1,249,670	$ 157,663	$ 1,407,333
Estimated Deficit @ 12/31/2011 without $658,653 Transfer [7]			$ 98,292
Adjusted 2012 Total Retiree Projected Cost			$ 1,505,625
Adjusted 2012 Total Retiree Projected Cost Per Retiree Per Month (PRPM) [8]			$ 922.56
2011 Current Retiree Budget Revenue [9]			$ 1,336,249
Projected Rate Increase			**12.68%**

[1] Retirees Exposure is for the period 6/1/10 - 5/31/11: 2-months lagged.

[2] Claims Fluctuation Margin is to account for Retiree health plan changes on 8/1/10 and lack of experience credibility.

[3] Projected Monthly Retirees is July 2012.

[4] Per C. Mendocino projected 2012 expenses.

[5] Per C. Mendocino Rx rebates include 2012 projected amount ($18,593) and current rebate ($82,964) as of September 2011.

[6] ERRP Reimbursement is assumed not to be made in 2012.

[7] Per C. Mendocino's Request, assume transfer is not approved in 2011.

[8] Adjusted 2012 Total Retiree Projected Cost Per Retiree Per Month (PRPM) includes: 121 retirees + 15 dependents.

[9] 2011 Current Retiree Budget Revenue per C. Mendocino - Retiree monthly budget rate is $818.78 per Retiree members. Revenue through premium payment: received at $530.78 with dependents paying $818.78.

Fund Balance

Excess Surplus / (Deficit) Fund Balance Estimated by 12/31/2011		2011 With Fund Transfer		2011 Without Fund Transfer
Projected Paid Claims	$	1,106,753	$	1,106,753
Projected Plan Expenses	$	330,568	$	330,568
Total Health Plan Cost	$	1,437,321	$	1,437,321
2010 ERRP Reimbursement [1]	$	334,168	$	334,168
Projected Plan Revenue	$	1,336,249	$	1,336,249
Projected Surplus / (Deficit) 12/31/2011	$	233,096	$	233,096
Beginning Plan Surplus / (Deficit) Position [2]	$	(331,388)	$	(331,388)
Ending Plan Surplus / (Deficit) Position	$	(98,292)	$	(98,292)
2011 Retiree Fund Transfer ($658,653) [3]	$	658,653	$	-
Excess Surplus / (Deficit) Fund Balance By 12/31/2011	$	560,361	$	(98,292)

[1] 2010 ERRP Reimbursement was received March 2011 and is applied to Retiree Fund in 2011 plan year.

[2] Beginning Plan Surplus / (Deficit) Position per C. Mendocino.

[3] Per C. Mendocino for approved Retiree plan fund transfer in 2011.

Plan Change Recommendations

- Non-Medicare Retiree Medical Plan Changes

  - Increase plan year deductible from $500 to $1,000:

    Reduce 2012 renewal by 3.9%: 12.68% - 3.90% = 8.78% Increase.

    2012 Plan Year monthly Non-Medicare retiree cost is $890.67.

  - Increase plan year out-of-pocket maximum from $4,000 to $6,000:

    Reduce 2012 renewal by 2.1%: 12.68% - 2.10% = 10.58% Increase.

    2012 Plan Year monthly Non-Medicare retiree cost is $905.41.

  - Decrease coinsurance from 80% In-net and 60% Out-net to 70% and 50%:

    Reduce 2012 renewal by 3.2%: 12.68% - 3.20% = 9.48% Increase.

    2012 Plan Year monthly Non-Medicare retiree cost is $896.40.

Plan Change Recommendations

- Non-Medicare Retiree Prescription Drugs Plan Changes

  - Prescription Drugs copays:

    Current Plan: Retail $10 or 10% (greater of two) generic; $20 or 20% (greater of two) brand; $30 or 30% (greater of two); Mail Order 2 times Retail

    Proposed Plan: Retail $20 or 10% (greater of two); generic $40 or 20% (greater of two); $60 or 30% (greater of two); Mail Order 2 times Retail

    Reduce 2012 renewal by 3.1%: 12.68% - 3.10% = 9.58% Increase.

    2012 Plan Year monthly Non-Medicare retiree cost is $897.22.

Appendix

Acknowledgement

- Keenan & Associates would like to thank Ms. Sue Goodrick at the County of Mendocino Human Resources Department for in providing the necessary data for this renewal projection within a limited time frame. Her cooperation and guidance has been extremely valuable to our team.

Disclaimer

Disclaimer

Keenan & Associates is an insurance brokerage and consulting firm. It is not a law firm nor an accounting firm. We do not give legal advice or tax advice and neither this report, the answers provided as part of this report, nor the documents accompanying this presentation constitutes or should be construed as legal or tax advice. You are advised to follow up with your own legal counsel and/or tax advisor to discuss how this information affects your organization.

CARMEL J. ANGELO, PAT MEEK, STACEY CRYER, AND MARYLOU LEONARD; EMPLOYEE ORGANIZATION(S): IHSS PROVIDERS

AGENDA ITEM NO. 12B – PURSUANT TO GOVERNMENT CODE SECTION 54957.6 - CONFERENCE WITH LABOR NEGOTIATOR - AGENCY NEGOTIATORS: CARMEL J. ANGELO, PAT MEEK, MEREDITH FORD, KYLE KNOPP, AND RICK HAEG; EMPLOYEE ORGANIZATION(S): ALL

RECONVENED IN OPEN SESSION: 1:33 P.M.

T3-443

AGENDA ITEM NO. 12 – REPORT OUT OF CLOSED SESSION
Presenter: Chair Smith

Board Action: No action was taken in Closed Session other than direction given to staff.

T3-445

AGENDA ITEM NO. 7E – DISCUSSION AND POSSIBLE ACTION REGARDING A MOBILE HOME (SPACE) RENT CONTROL ORDINANCE
Presenter/s: Ms. Jeanine B. Nadel, County Counsel.

Public Comment: Ms. Janet Hurlbut; Ms. Judy Hatch; Mr. Walt Waterbury; Mr. Don Howard; Ms. Joann Cortina; Ms. Donna Buttitta; Mr. Roger McConnell; Mr. Doug Johnson; Mr. Dick Selzer; Ms. Jessie Martin; Mr. J.R. Rose; and Ms. Barbara Chandler.

Board Action: Upon motion by Supervisor Hamburg, seconded by Supervisor McCowen, and carried (4/1, with Supervisor Pinches dissenting); IT IS ORDERED that the Board of Supervisors directs staff to create a Rent Stabilization Ordinance to be brought back for consideration by this Board, and directs the Executive Office to work with County Counsel to garner public input.

RECESS: 2:30 – 2:37 P.M.

T3-2740

AGENDA ITEM NO. 7D – PRESENTATION OF THE 2012 NON-MEDICARE ELIGIBLE RETIREE HEALTH PLAN RENEWAL REPORT AND ESTABLISHMENT OF PREMIUM RATES; AND DISCUSSION AND POSSIBLE ACTION REGARDING COVERAGE OF MEDICARE ELIGIBLE RETIREES HEALTH REIMBURSEMENT ACCOUNTS (HRA) FOR THE 90-DAY NOTICING PERIOD
Presenter/s: Ms. Pat Meek, Human Resources Director; Ms. Sue Goodrick, Human Resources Manager; Mr. E. Peter McNamara, Keenan Associates, Senior Vice President - Municipalities; Ms. Jovita Juanillo, Keenan Associates, Senior Vice President - Technical; and Mr. Michael Ahn, Keenan Associates, Vice President – Municipalities.

Public Comment: Ms. Reta Hill; Ms. Marsha Wharff; Mr. Terry Melvin; Mr. Richard Shoemaker; and Mr. Jim Anderson, Retirement Board, Retirement Administrator.

Board Action: Upon motion by Supervisor Pinches, seconded by Supervisor McCowen, and carried (4/1, with Supervisor Hamburg dissenting); IT IS ORDERED that the Board of Supervisors 1) Receive 2012 Non-Medicare Eligible Retiree Premium Renewal Report; 2) Direct staff to increase premium levels for Non-Medicare Eligible Retiree Health Plan to fully fund plan costs; 3) Authorize staff to send 90-day notification letters of Retiree Health Fund depletion to Medicare Eligible Retirees and Non-Medicare Eligible Retirees; 4) Authorize the Auditor to set up a separate account for Medicare Eligible Retirees HRA contributions in the amount of $107,016, and direct staff to bring back recommendations to finance Medicare Eligible Retirees HRA contributions for the 90-day noticing period.

RECESS: 4:20 – 4:35 P.M.

MENDOCINO COUNTY BOARD OF SUPERVISORS
ONLINE AGENDA SUMMARY

BOARD AGENDA #____

-Transmittal of electronic Agenda Summaries and associated records must be emailed to: bosagenda@co.mendocino.ca.us
-Electronic Agenda Transmission Checklist: ☒ Agenda Summary ☐ Records ☐ If applicable, list other online information below

TO: Board of Supervisors DATE: November 9, 2011

FROM: Human Resources MEETING DATE: November 15, 2011

DEPT RESOURCE: Pat Meek, HR Director PHONE: 463-4441 Present ☒ On Call ☐
Sue Goodrick, HR Manager PHONE: 463-4261 Present ☒ On Call ☐

Consent Agenda ☐ Regular Agenda ☒ Noticed Public Hearing ☐ Time Allocated for Item: 30 min

AGENDA TITLE: Update on Status of Retiree Health Plan and Discussion and Possible Action on Association of Mendocino County Retire Employees (AMCRE) Request to Further Evaluate Options for Providing Health Care for Qualifying Non-Medicare Eligible Retirees Including Blending Into the Active Employee Health Plan

- PREVIOUS BOARD/BOARD COMMITTEE ACTIONS: On April 20, 2010, the Board authorized the transition of Medicare Eligible Retirees from the current Retiree Health Plan to individual Medicare supplemental plans through Extend Health and modification of the Non-Medicare Eligible Retiree Health Plan to mirror the Active Plan II in terms of level of benefits (medical plan only). On June 15, 2010, and July 13, 2010, staff provided updates on the Retiree Health Plan Trust Fund and Non-Medicare Eligible Retiree Health Plan. On September 28, 2010, the Board approved an increase in the County contribution towards the Non-Medicare Eligible Retiree Health Plan premiums from the Retiree Health Plan Insurance Reserve to cover increased plan costs for Plan Year 2011. On May 23, 2011, staff provided updates on the Retiree Health Plan Trust Fund and Non-Medicare Eligible Retiree Health Plan. On September 27, 2011 the Board approved a premium level increase for Non-Medicare Eligible Retiree Health Plan to fully fund plan costs for 2012 and authorized staff to send 90-day notification letters of Retiree Health Fund depletion to Medicare Eligible Retirees and Non-Medicare Eligible Retirees.

- SUMMARY OF REQUEST: The Mendocino County Board of Retirement (BOR) decision to not release the balance of excess earnings ($658,654) that had been set aside for retiree health benefits combined with information in the 2012 Non-Medicare Eligible Retire Premium Renewal Report (attached) prepared by Keenan and Associates (the County Health Plan consultant) significantly impacted the life expectancy of the Non-Medicare Eligible Retiree Health Plan. The BOR action, along with the information provided in the 2012 Non-Medicare Eligible Retiree Premium Renewal Report, substantiated that the County would not be able to meet the Board's desired goal of preserving access to health care for non-Medicare eligible retires until such time as Health Care Reform was fully implemented in 2014, without unanticipated costs to the County General Fund. This is in addition to the cost (approximately $107, 000) of sustaining the Medicare Eligible Retirees HRA contributions until the 90 day noticing period for discontinuance of the program expires.

  The attached Human Resources report, Non-Medicare Eligible Retiree Health Plan Status Report, outlines the history of recent events and decisions impacting the Retiree Health Plan, the current status of the health plan funding, the Delta Health Systems 3rd Quarter Claims Review, the status of the open enrollment conducted for the Non-Medicare Eligible Retiree Health Plan, and the consequences of the smaller pool of Retiree Health Plan enrollees.

  On November 1, 2011, staff was informed of a letter received by the Board of Supervisor's from the Association of Mendocino County Retired Employees (AMCRE) dated October 24, 2011 (attached). The letter requested the Board consider establishing a short-term (60-day) working group to review the alternatives for Non-Medicare Eligible Retirees health care as prepared by Mercer Consulting on April 8, 2011 (Mercer report attached) and presented to the Board on May 23, 2011. On November 1, 2011, the Board directed staff to prepare an agenda report to discuss this request.

  The HR report also outlines the many factors to consider if the Board chooses to move forward with a process to evaluate alternative strategies which would extend the Non-Medicare Eligible Health Plan to 2014.

BOARD ACTION (DATE: ____________): ❑ Approved ❑ Referred to____________________ ❑ Other ________

RECORDS EXECUTED: ❑ Agreement: _________ ❑ Resolution: _________ ❑ Ordinance: ________ ❑ Other ________

Revised-01/09

The report outlines the significant barriers to blending the Non-Medicare Eligible Retiree Health Plan with the Active Employee Health Plan including impact of Other Post Employment Benefits (OPEB) liability on bond ratings, requirement for an OPEB liability study at an unanticipated cost to the County General Fund, necessity and likelihood of a successful meet and confer process with 8 bargaining units, impact on stabilization reserves for the Active Health Plan, and overall impacts to the County General Fund. In addition, while staff has the Mercer Non-Medicare Retiree Options report from April 2011 and the recent Keenan 2012 plan update from September 2011; Keenan was requested to provide a very preliminary estimate on impact to County for blending non-Medicare eligible retirees with the active employees for health care coverage. That information is forthcoming and will be provided to the Board on or before the November 15, 2011 meeting.

Staff wishes to report to the Board recent developments with the Retiree Health Plan and obtain direction on how to proceed based on the updated information provided in the Non-Medicare Eligible Retiree Health Plan Status Report and the request of AMCRE.

■ SUPPLEMENTAL INFORMATION AVAILABLE ONLINE AT: www.co.mendocino.ca.us/administration/

■ ADDITIONAL INFORMATION ON FILE WITH THE CLERK OF THE BOARD (CHECKED BY COB IF APPLICABLE): ☐

FISCAL IMPACT:			
Source of Funding	Current F/Y Cost	Annual Recurring Cost	Budgeted in Current F/Y
		N/A	Yes ☐ No ☒

■ SUPERVISORIAL DISTRICT: 1☐ 2☐ 3☐ 4☐ 5☐ All☒ ■ VOTE REQUIREMENT: Majority☒ 4/5ths☐

■ **RECOMMENDED ACTION/MOTION: 1) Receive update on status of Non-Medicare Eligible Retiree Health Plan; 2) Direct staff to discontinue Non-Medicare Eligible Retiree Health Plan effective upon 90 day notice.**

■ ALTERNATIVES: 1) Direct staff to form a committee to "go through the Mercer report options for preserving the retire health care plan" per the AMCRE letter dated October 11, 2011 to the Board of Supervisors 2) Direct staff to bring item back to the Board within 30 days for further discussion and possible action.

■ CEO REVIEW (NAME): Carmel J. Angelo PHONE: 463-4441

RECOMMENDATION: Agree ☒ Disagree ☐ No Opinion ☐ Alternate ☐ Staff Report Attached ☐

BOARD ACTION

❑ Approved ____________

❑ Records Executed ____________

Date of Meeting ____________

❑ Referred to ____________

❑ Other ____________

NON-MEDICARE ELIGIBLE RETIREE HEALTH PLAN
Status Report to the Mendocino County Board of Supervisors
November 15, 2011

Human Resources – Staff Report

Background/Issue

On April 20, 2010, the Board of Supervisors authorized, effective August 1, 2010, the transition of approximately 388 Medicare eligible retirees on the County self-funded plan to individual Medicare supplemental plans using Extend Health as the Medicare coordinator service provider. The Board further authorized, subject to the availability of funds in the Retiree Health Plan Insurance Reserve, a County contribution of $100 per Medicare eligible retiree per month be provided to retirees to offset the retiree costs for a supplemental insurance plan and a County contribution of $4.00 per retiree account per month service charge for the maintenance of the Health Reimbursement Account (HRA). Upon depletion of funds in the Retiree Health Plan Insurance Reserve, 100% of any costs associated with their Medicare plans would be borne by the retiree.

On April 20, 2010, the Board of Supervisors further expressed its desire to attempt to preserve access to health care for the 277 non-Medicare eligible retirees/dependents until such time as Health Care Reform was fully implemented (2014). At this same time, the Board authorized, effective August 1, 2010, the modification of the Non-Medicare Eligible Retiree Health Plan to mirror the Active Plan II in terms of level of benefits (medical and prescription drug plan only) with a County contribution of $200 per month towards the non-Medicare eligible retiree health plan premiums from the Retiree Health Plan Insurance Reserve until the funds were depleted, after which time 100% of the costs would be borne by the retirees.

Premium rates were established at $731.20 per non-Medicare eligible retiree per month based on a projection that all non-Medicare eligible retirees enrolled at the time of the analysis would remain on the plan. At the time, approximately 97 non-Medicare eligible retirees chose to dis-enroll (or approximately 35% of total plan participants).

On September 28, 2010, the Board of Supervisors approved a 12% increase in 2011 plan costs for non-Medicare eligible retirees to $818.78 per retiree/dependent per month, equating to an approximate $88.00 per retiree/dependent per month increase. This increase was necessitated by the 35% attrition rate among the non-Medicare eligible retirees on the plan; premium calculations for claims expenses were now spread over a much smaller group. To offset the adverse impact to those non-Medicare eligible retirees remaining on the Plan, the Board further authorized the County to increase its contribution (from $200 to $288) to equal the amount of the $88 premium increase. Staff reported that based on the Board's prior actions to preserve the remaining funds, and the decreased number of plan participants, the Retiree Health Insurance Reserves expected depletion date was revised to March 2012. These projections indicated that the County would not be able to meet the Board's desired goal of preserving access to health care for non-Medicare eligible retirees until such time as Health Care Reform was fully implemented in 2014.

On May 23, 2011, Mercer presented its findings based on the evaluation of a number of options for maintaining a viable non-Medicare eligible retiree health plan. Those options were:

A. Create larger pool of non-Medicare eligible retiree health plan participants by pooling resources with other public agencies;

B. Create larger pool of non-Medicare eligible retiree health plan participants by offering retiree health care to those hired after 1998 (post-1998), and who do not currently have the opportunity to participate in the retiree health plan.

C. Evaluate potential impacts of blending Non-Medicare Eligible Retiree Health Plan with the Active Employee Health Plan.

As a result, and due to the lack of responses to surveys soliciting interest in creating a larger pool of retirees on the health plan (Options A & B), the Board:

- Authorized the Auditor to maintain separate accounting records of the receipt of any Early Retiree Reinsurance Program (ERRP) reimbursements received and use for the sole purpose of extending the funding life of the non-Medicare Eligible Retiree Health Plan.
- Re-affirmed its desire to continue to offer Non-Medicare Eligible Retiree health care coverage retaining the current plan design and continue to apply for ERRP reimbursements on a quarterly basis with the goal of using those reimbursements to bridge coverage until 2014 Federal Health Care Reform exchange occurs.
- Directed staff to begin notification process over the upcoming 3-4 months to Medicare Eligible Retirees informing them that their proportionate share of the Retiree Health Trust funds would be exhausted approximately July 1, 2012.

On September 21, 2011, the Board received formal notification from the Board of Retirement of its intent to not release the balance of excess earnings ($658,654) that had been set aside to pay for retiree health benefits. This action, along with the information provided in the 2012 Non-Medicare Eligible Retiree Premium Renewal Report prepared by Keenan and Associates and unanticipated significant increases in recent Non-Medicare eligible retiree claims costs, caused the Board of Supervisors, on September 27, 2011, to increase premium levels for the Non-Medicare Eligible Retiree Health Plan to fully fund plan costs in the amount of $922.56 per retiree per month effective January 1, 2012. In addition staff was directed to send 90-day notification letters of the Retiree Health Fund depletion to Medicare and non-Medicare Eligible retirees. For Medicare eligible retirees, the notification stated the County's intent to discontinue its $104 per month Health Reimbursement Account (HRA) contribution effective December 31, 2011. The notice to Non-Medicare Eligible Retirees identified the increase in their premium rates for 2012 and the County's intent to discontinue its $288 per month contribution towards health plan premiums effective January 1, 2012. The Board further authorized the Auditor to set up a separate account for Medicare Eligible Retirees HRA contributions in the amount of approximately $107,016 to finance Medicare Eligible Retirees HRA contributions for the 90-day noticing period.

On November 1, 2011, staff was informed of a letter received by the Board of Supervisor's from the Association of Mendocino County Retired Employees (AMCRE) dated October 24, 2011 (attached). The letter requested the Board consider establishing a short-term (60-day) working group to review the alternatives for Non-Medicare Eligible Retirees health care as prepared by Mercer Consulting on April 8, 2011 and presented to the Board on May 23, 2011. On November 1, 2011, the Board directed staff to prepare an agenda report to discuss this request.

While additional updates continue to be provided to the Board through Chief Executive Officer's Report (CEO Snapshots), staff wishes to provide a status report on the Retiree Health Trust Fund, outcome of the recent open enrollment based on 2012 premium increases, and discuss a response to the AMCRE letter dated October 24, 2011.

Current Status – Open Enrollment Results

On September 28, 2011, the approximate 357 Medicare eligible retirees taking advantage of the $104/month county contribution into a Health Reimbursement Account (HRA) were notified that this funding would discontinue effective December 31, 2011.

On the same day, notification went out to Non-Medicare Eligible Retirees informing them of the premium rates for 2012. Participants were advised of a special early open enrollment period (October 1-22, 2011) for the purpose of re-enrolling or terminating from the Non-Medicare Eligible Retiree Health Plan. As of Tuesday, November 8th, 60 retirees/10 dependents re-enrolled in the non-Medicare eligible retiree health plan; 26 retirees/1 dependent plan to terminate coverage. Although staff has attempted to contact the remaining 15 participants currently enrolled in the non-Medicare eligible retiree health plan by telephone, as of the writing of this report, we have not yet heard back from them on their intent to re-enroll or terminate their coverage.

As the participant pool diminishes so does the ability to obtain underwriting based on the experience of the group as insurance companies will deem it a not "credible group" nor is it likely the remaining participants in the plan will be able to continue to pay increased premiums based on the distribution of costs over a smaller base group. According to Keenan & Associates, the County's Health Plan Consultant, rates for 2012 would have to be re-evaluated if 10% (or approximately 11) of the current participants dis-enrolled. As of this writing, we have confirmed that 27 retirees/1 dependent have terminated coverage.

Human Resources is in the process of re-evaluating retiree health plan costs with Keenan based on the reduction in participants determined by the most recent open enrollment. It is expected that premiums will increase due to the reduction in participants, requiring another 90 day notification to advise plan participants of an even higher premium increase. Staff will then need to conduct another open enrollment to determine the number of participants who wish to continue on the retiree health plan at these yet-to-be determined higher rates. Based on the response to this 2nd open enrollment, we may be forced to again conduct another analysis to determine plan costs with an even smaller group, if the smaller pool of participants remains insurable.

Current Status - Funding

The County has recently received $67,987.62 in Early Retiree Reinsurance Program (ERRP) funding for the period of January – July 2011. Based on the receipt and deposit of these funds plus the initial $334,168, the Retiree Health Fund presently has a **cash balance ending October 2011 of approximately $217,138**. Staff anticipates one more reimbursement for the period August – December 2011 (preliminarily estimated at $120,000). Due to the discontinuation of the County's contribution to retiree health premiums, the County will no longer be eligible for ERRP funds beginning in 2012.

This does not include the approximate $107,000 necessary to finance Medicare Eligible Retirees HRA contributions during the 90 day notification period that funding is depleted.

Although, claims expenses can significantly vary month-to-month, staff continues to agree with Keenan's projection, as presented to the Board on September 27 2011, that the non-Medicare Eligible Retiree Health Fund will have a deficit in the amount of approximately $98,292 by December 31, 2011.

<u>Keenan Evaluation</u> – Blending Non-Medicare Eligible Retirees with Actives/Next Steps

Based on the outcome of the open enrollment process, staff is following up with Keenan & Associates on how to proceed since the reduction in plan participants will require a re-evaluation of the premium rates – or if the group will even be insurable given the small group size.

We also have re-evaluated the possibility of blending the non-Medicare Eligible retirees with the Active Health Plan. While staff has the impact analysis performed by Mercer dated April 8, 2011, and the recent Keenan 2012 plan update, Keenan was requested to provide a very preliminary estimate on impact to County for blending non-Medicare eligible retirees with the active employees for health care coverage. That information is forthcoming and will be provided to the Board on or before its November 15, 2011 meeting.

Issues that remain a concern to staff related to blending non-Medicare Eligible Reitrees with Actives are:

1. Impact of Other Post Employment Benefits (OPEB) Liability on bond ratings. Impacts of the reporting of the OPEB liability must be made when considering the blending of non-Medicare eligible retirees into the active pool for health plan benefits. On August 21, 2008 the Retirement Health Plan's Actuarial Valuation Study highlighted an approximate $129.4 million OPEB liability, on top of significant liabilities in the Retirement system. Subsequent Board action eliminated the OPEB liability, as it was not a vested right of the retiree. This action virtually eliminated the OPEB liability, thus increasing the health of the County's books. The current proposal to blend non-Medicare eligible retirees with those of active employees would require the County to conduct another actuarial evaluation of the OPEB liability. New liabilities would be placed on the County books. The effect of this new information would most profoundly influence the County's credit rating – where the County received an improved Standard & Poor's rating for its essential TRANs borrowing partially as a result of the elimination of the OPEB liability. The increase in the County's OPEB liability from the blending of the non-Medicare eligible retiree's with the active pool is currently unknown, but could be substantial and would require a comprehensive study. This point is further elucidated when you consider that this retiree benefit could incentivise current employees to retire at levels higher then currently is being experienced.
2. Impact to County General Fund. Increase in rates to active employees to subsidize non-Medicare eligible retirees will impact County contribution for same (75% County & 25% Employee).
3. Meet and Confer. Improbability of obtaining buy-in from 8 bargaining units – particularly with anticipated increases in premium costs between 16-20% over the next 2 years (per Keenan 2012 study).
4. An OPEB liability study would be required to determine the value of subsidies between active employees and retirees. It would also determine the current and future value of benefits to retirees. The cost for such an analysis averages from $20,000 to $40,000.

AON is presently performing an OBEB liability analysis (as required by GASB34) for the Retiree Health Plan for the period of 2009 – 2011 at a cost of $25,000. Staff contacted AON to determine if they would be willing to change the scope of services to include the OPEB liability analysis for blending the non-Medicare eligible retirees with the Active employees. The additional cost is estimated at $10,000+ (based on number of scenarios requested). The analysis could be completed in 5-6 weeks.

5. Stabilization reserve for the non-Medicare eligible retirees has not been established. Blending non-Medicare eligible retirees with the Active Health Plan would necessitate an increase in the reserve to cover the additional plan participants.

Delta Health Systems – 3rd Quarter Claims Review

On October 25, 2011, Delta Health Systems reported that the Active Health Plan saw a 108% increase in paid claims from 2nd quarter to 3rd quarter with 1% of the membership driving approximately 50% of the cost. This significant increase can be tied to 13 large claims (1 a vehicle accident subject to subrogation).

Similarly, Delta reported they saw a 102% increase in paid claims from 2nd quarter to 3rd quarter for the Non-Medicare Eligible Retiree Health Plan with 2.4% of the population responsible for 60% of the paid claims. It was further noted that 3 high dollar claimants and a 6% decrease in enrollment during this period were drivers in the increased claim experience.

Full disclosure of this information when discussing the possibility of blending the non-Medicare Eligible Retirees into the Active Health Plan is important as it might have an impact on future premium rates.

The third quarter Delta Health Systems Reports for both Active Employee Health Plan and the Non-Medicare Eligible Retiree Health Plan were forwarded on November 8th to the Board of Supervisors, Bargaining Unit representatives, and AMCRE.

AMCRE MEETING

Staff attended the AMCRE meeting on October 11, 2011 to respond to questions regarding the September 27, 2011 Board action. Of continued particular interest was the further evaluation of blending non-Medicare eligible retirees with the active employee health plan.

In addition, Human Resources staff was requested to develop a "resource" list of possible insurance option contacts. That list, although limited, was developed based on information provided by the retirees and provided to AMCRE for distribution and posting to their website on November 8, 2011. The list was also posted to the County's Retiree Health website.

Response to AMCRE Letter (dated October 24, 2011)

In response to AMCRE's letter, staff agrees there are a wide variety of variations to the current Non-Medicare Eligible Health Care Plan design that would make it more affordable (i.e. catastrophic plans). However, based on the comments of those in attendance at the September 27, 2011 Board meeting, as well as a number of telephone calls Human Resources received, the preference, and the Board's ultimate decision, was to retain the current plan design. Staff recognizes the difficulty in finding a plan design that would be most beneficial to the majority of retirees as everyone has different financial and physical circumstances.

The inability to find a plan design that could meet the diverse needs of our non-Medicare eligible retirees was apparent in early 2010 when the Retiree Health Benefits Committee was re-established to provide advisory assistance to the CEO's office in the evaluation of various options for the sustainability of the Retiree Health Plan. Even that group (consisting of people who were "connected" with the retirement community) couldn't come to agreement on which plan design would best suit the group.

Notifications

Pursuant to the Board's request on November 1, 2011 to, as quickly as possible, agendize AMCRE's request to establish a workgroup for the purpose of addressing benefit strategy options outlined by Mercer Consulting Services (April 26, 2011), on November 7th staff sent correspondence to AMCRE and the Retirement Office of its intent to discuss their request at the Board's November 15, 2011 meeting.

Recommended Action

It is staff's recommendation that blending the active and non-Medicare eligible retirees into the same health plan is not a viable option based on the challenges discussed in detail above (pages 4-5). In summary they are:

1. Impact of OPEB liability on bond ratings
2. Financial Impact to County and General Fund.
3. Improbability of a timely and successful meet and confer process.
4. Cost to Non-Medicare Eligible Retiree Health Plan to perform OPEB liability study to evaluate blending option.
5. Cost associated with establishing a stabilization reserve for the coverage of the additional plan participants.

Based on the cycle of diminishing number of non-Medicare eligible retiree health plan participants, which requires a re-evaluation of premium rates, which then requires a 90 day notice and conducting another open enrollment, staff is recommending the discontinuation of the non-Medicare eligible retiree health plan.

Staff further believes that forming a workgroup with retiree participants for evaluating alternative Non-Medicare Eligible Health Plan designs will result in the same outcome as when options were evaluated by the Retiree Health Advisory Committee in early 2010.

Attachments: AMCRE Letter dated October 24, 2011

Keenan & Associates Report - (will be provided to the Board on or before the 11/15/11 BOS meeting)

Mercer Power Point dated April 26, 2011

Mercer Written Report dated April 8, 2011

AMCRE

ASSOCIATION OF MENDOCINO COUNTY RETIRED EMPLOYEES

Post Office Box 903 • Ukiah, CA 95482

FRIENDSHIP • UNITY • STRENGTH • GROWTH

October 24, 2011

Board of Supervisors

County of Mendocino

501 Low Gap Road, Room 1010

Ukiah, CA 95482

Dear Supervisors:

At their general meeting of October 11, 2011, The Association of Mendocino County Retired Employees (AMCRE), representing 774 retirees, approved requesting that the Board of Supervisors follow through with the summary recommendations of the Mercer report on the retiree health care plan, dated April 26, 2011, which reads:

> *The County may want to consider a benefits strategy that utilizes Options 3 (Change the retiree health plan design to reflect the plan design of those that are dis-enrolling from the plan) and 4 (Combine the non-Medicare eligible retiree health plan with the County's active employee plan) and look for a strategy which would extend the non-Medicare eligible retiree health plan to 2014.*

Instead of working with current and retired employees, the Board has made a unilateral decision affecting approximately 1500 retirees, as well as 158 current employees nearing retirement. We are asking that a short-term, 60-day working group be formed to go through the Mercer report options for preserving the retiree health care plan with an eye to overcoming the hurdles mentioned in the report. The working group would be comprised of one or two current retirees, administrative staff, and a County Supervisor. The group would also include a pre-1998 representative of SEIU, a pre-1998 non-SEIU employee, a post-1997 representative of SEIU, and a post-1997 employee.

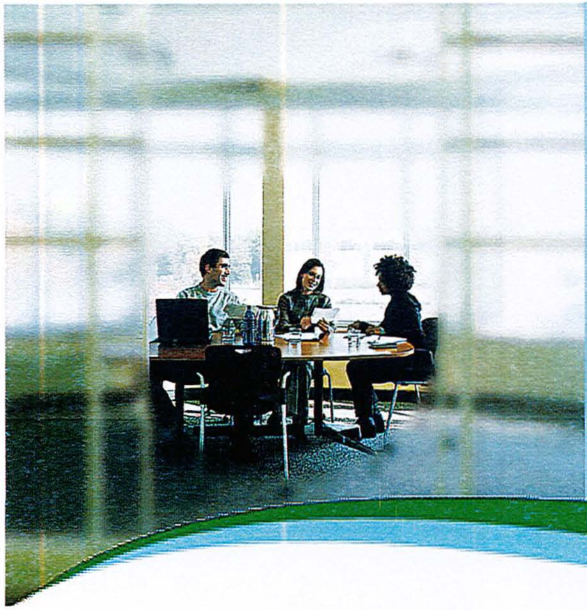
We believe this is an urgent issue because of the impending increase in retiree health premiums scheduled to start January 2012. Unless this issue is addressed, the fiscal death spiral of our health care program will accelerate. The plan is not sustainable in its current form.

Thank you for your consideration of this request.

Sincerely,

Tom Lilientha[illegible]

MERCER



April 26, 2011

County of Mendocino
Retiree Health Plan Report

Bordan Darm
Paul Ford
Sacramento

Status of the County of Mendocino Retiree Health Fund

- Effective January 1, 2011:
- The County's Retiree Health Fund Balance **$1,513,014**
  - Reserve for claims incurred but not paid (IBNP) **-$228,145**
  - Recovery from the Early Retiree Reinsurance Program **+$334,168**
  - Net Amount available for retiree health plan expenses **$1,619,037**
    - ERRP funds must be spent on Early Retirees (non-Medicare Eligible Retirees)
- The County's Monthly Cost for Retiree health care coverage
  - $104 per Medicare Eligible Retiree per month **$33,120**
  - $288 per non-Medicare Eligible Retiree per month **$36,400**
  - Total Monthly Cost to the County **$69,520**
    - Medicare Eligible Retiree coverage offered through ExtendHealth
    - Non-Medicare Eligible Retiree coverage sponsored through the County's Plan
    - Non-Medicare Eligible Retiree monthly rate for coverage is $818.78 with a retiree contribution of $530.78/mo.
- The Retiree Health Fund is estimated to exhaust in 18.4 Months **July 1, 2012**
  - The ERRP recovery extends the life of the fund for non-Medicare Eligible Retirees by 10.0 months to May 1, 2013

Surveying – A Process for Developing a Strategy

- The County conducted surveys to receive input to determine interest level, possible parameters for outlining the plan design and premium pricing in developing a non-Medicare eligible retiree strategy:
  - **Option 1 -** Survey Public Agencies surrounding the County of Mendocino area to determine interest in creating a pool for non-Medicare eligible retirees
    - 13 of 42 public agencies responded
    - 2 of 13 respondents showed interest in forming a public agency pool
  - **Option 2a -** Surveyed post-1998 active County employees age 55+ with 10 years of service to help structure an early retiree health plan
    - 8 of 174 active employees responded
  - **Option 2b -** Surveyed employees hired post-1998 and are now retired from the County to help structure an early retiree health plan
    - 3 of 70 retirees responded
  - **Option 3 -** Surveyed pre-1998 retired County employees who have dis-enrolled from the County sponsored non-Medicare eligible retiree health coverage to help structure an early retiree health plan
    - 26 of 76 retirees responded
- Based on the lack of responses the message to the County could be that there is a lack of interest in expanding non-Medicare eligible retiree coverage sponsored by the County.

Benefit Strategy - Modifying the Plan Design

Plan Design Options	Current	Option A	Option B
Deductible Options			
Individual/Family	$500 / $1,500	$1,000 / $3,000	$2,000 / $6,000
Maximum Out of Pocket Options			
Individual/Family	$4,000 / $8000	$6,000 / $12,000	$10,000 / $20,000
Coinsurance Levels			
In-Network / Out-Network	80% / 60%	75% / 50%	70% /50%
Emergency Room Copay			
Copayment	$50	$100	$200
Hospital Deductible			
Inpatient / Outpatient	$0 / $0	$100 / $100	$500 / $500
RX Copayments (Retail, x2 Mail Order)			
Generic	$10	$10	$15
Formulary Brand	$20	$20	$30
Non-Formulary Brand	$30	$40	$50
Total Annual Value			
Value Annual $	$0	-$103,400	-$227,700
Value per Retiree per Month		-$62.90	-$138.50
Value %	0.0%	-9.4%	-20.7%

- Mercer valued various plan design features to allow the County to consider plan design changes that would reduce the cost of non-Medicare Eligible retiree coverage.
- The cost of coverage could decrease:
  - 9.4% if all of Option A plan design features were implemented, or
  - 20.7% if all of Option B plan design features were implemented.
- The County could also elect to modify the plan design based on a blend of Option A and Option B

Benefit Strategy – Blending the Non-Medicare Eligible Retiree Plan with the Active Employee Plan

- As non-Medicare eligible retiree plan participation decreases, it becomes increasingly more difficult to accurately predict future plan costs.
  - The County may want to consider blending the non-Medicare eligible retiree population with the active employee population. The County will need to consider various factors in this approach.
    - The need to meet and confer with the bargaining units
    - Accounting for the proper usage of the active employee's stabilization reserve
    - Funding of the Incurred But Not Paid (IBNP) reserve
    - Accounting for the OPEB Liability
      - Cost of an OPEB Liability study $20,000 to $40,000
      - OPEB Liability Study should be done annually
      - The OPEB Liability can impact the County's Bond rating
    - The plan design to be considered
    - The development of rates and any direct subsidies inherent within the rates

Benefit Strategy – Blending Continued

- Mercer prepared five scenarios to outline the rate and subsidy impact:
  - **Scenario A:** Status Quo current rates without any subsidies
  - **Scenario B:** Eliminates Plan I and blends all rates so that they are identical
    - 22.1% cost subsidy, 2.3% cost increase to the active plans or $296,906
  - **Scenario C:** Offers retiree rates which mirror Plan II (no dental nor vision for retirees)
    - 27.5% cost subsidy, 2.9% cost increase to the active plans or $370,717
  - **Scenario D:** Keeps the plans as they are and targets a:
    - 15% cost subsidy, 1.6% cost increase to the active plans or $201,911
  - **Scenario E:** Keeps the plans as they are and targets a:
    - 10% cost subsidy, 1.0% cost increase to the active plans or $134,607
  - The contribution requirements for the County and Employees for these Scenarios would be:

Subsidy breakout by 75% / 25% County to Employee Contribution Split	Scenario B - Same Rate All Plans	Scenario C - Same Rate as Plan II	Scenario D - 15% Retiree Subsidy	Scenario E - 10% Retiree Subsidy
Retiree Subsidy	$ 296,906	$ 370,717	$ 201,911	$ 134,607
Additional County Contribution	$ 222,679	$ 278,038	$ 151,433	$ 100,956
Additional Employee Contribution	$ 74,226	$ 92,679	$ 50,478	$ 33,652

Benefit Strategy – Healthcare Reform

- Impact of Healthcare Reform on the County's retiree health plan
  - Through the ERRP program the County has received $334,168 in recoveries for 2010
    - These funds extend the life of the plan for early retirees by 10.0 months to May 1, 2013
  - Effective 2014, healthcare exchanges will be set up which will allow individuals (including non-Medicare eligible retirees) to elect coverage from these exchanges
    - One strategy the County may want to consider is bridging coverage to 2014
      - This allows non-Medicare eligible retirees to purchase coverage via the exchanges
      - An eight month gap would exist to 2014

Benefit Strategy – Potential Strategies

- For the Medicare eligible retirees it is recommended that the County offer ExtendHealth without a County contribution.
- For the non-Medicare eligible retirees the County has several options:
  1. Discontinue offering health coverage for non-Medicare eligible retirees.
  2. Bridge coverage to 2014.
     a) Reserve future ERRP recoveries for a reserve to fund the additional eight months.
     b) Reduce County contribution from $288 per employee to bridge the Contribution an additional eight months.
     c) Modify the plan design (see plan design options A and B) effective January 1, 2012 to reduce the rates and create retiree savings equivalent to the 8 months ($264,960).
     d) Implement a blend of A, B and C.
  3. Continue offering health coverage for non-Medicare eligible retirees. If this option is selected, the County will need to determine:
     a) Whether the retiree plan will be viable without blending with active employee plan.
     b) What plan design to offer.
     c) What, if any County contribution level to offer.
     d) What if any subsidy the active plan will provide the non-Medicare eligible retiree plan.

Benefit Strategy – Recommended Approach

- For the Medicare eligible retirees it is recommended that the County:
  - effective July 1, 2012, offer ExtendHealth without a County contribution
- For the non-Medicare eligible retirees it is recommended that the County:
  - Effective January 1, 2012, implement a benefits strategy that will:
    1. bridge non-Medicare eligible retiree coverage until 2014 and
    2. allow non-Medicare eligible retirees to obtain coverage through the Healthcare exchanges in 2014 (without a County contribution)
  - It is important that this benefit strategy consider:
    - Minimizing attrition in the health plan by providing affordable healthcare coverage to retirees, while maintaining adequate coverage levels
    - the proper usage of current and future ERRP recoveries (future recoveries will be filed for on a quarterly basis)
    - Addressing the issue of County contributions being exhausted July 1, 2012 (or May, 2013 with current ERRP recoveries)
    - Determining whether the blending of active employee plan with the retiree plan would be appropriate
    - Outlining a contingency strategy should the healthcare exchanges not be realized for 2014
  - It is recommended that the benefit strategy be developed in conjunction with the 2012 plan renewal and be completed by September 30, 2012 to allow 90 day notice to the non-Medicare eligible retirees

MERCER

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Principal

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MERCER

April 8, 2011

Sue Goodrick
Benefits Manager
County of Mendocino
579 Low Gap Road
Ukiah, CA 95482

Subject: Non-Medicare Retiree Options

Dear Sue:

The County of Mendocino (the County) requested that Mercer explore options to maintain a viable non-Medicare eligible retiree health plan. Mercer and the County identified four options.

- Increase the size of the pool of participants by creating a larger pool with neighboring public agencies (Option 1)
- Increase the size of the pool of participants by opening up the health plan to the County's non-Medicare eligible retirees who were hired after 1998 (post-1998) (Option 2)
- Change the plan design of the plan to reflect the plan design of those that are dis-enrolling from the plan in an attempt to make the plan more affordable for non-Medicare eligible retirees (Option 3)
- Combine the non-Medicare eligible retiree health plan with the County's active employee plan inclusive of blending rates (Option 4)

Current Status of the Retiree Health Fund

As of January 1, 2011, The Retiree Health Fund had a balance of $1,513,014. This balance includes the funds cash balance and cash reserves held by MCERA. These funds are used to provide access to health care coverage for both Medicare eligible retirees and non-Medicare eligible retirees.

Medicare eligible retirees receive $104 per month into a Health Reimbursement Account (HRA) for which they can elect coverage through Extend Health. The average monthly County contribution amounts to $36,400.

As of January 1, 2011 there are 115 retirees and 22 dependents covered under the County's non-Medicare eligible retiree plan. The County contributes $288 per retiree for an average monthly County Contribution of $33,120. The non-Medicare eligible retirees contribute $530.78 per month for their coverage. The County does not make a contribution towards dependent coverage. Dependents are required to pay the full $818.78 per month.

Based on the decreased enrollment in the County's non-Medicare eligible retiree plan and the elimination of coverage under the self-funded plan for Medicare eligible retirees, the County's Incurred But Not Paid (IBNP) reserve liability has reduced from $566,395 on June 30, 2010 to $228,145 on December 31, 2010.

The County is participating in the Federal government's Early Retiree Reinsurance Program (ERRP). This program reimburses claim cost of individual retirees between the age of 55 and 64 for claim cost between $15,000 and $90,000 at an 80% rate. This means that the County will be reimbursed up to $60,000 for a qualified retiree who incurs a claim up to $90,000. The County has applied for reimbursement of claims from June 1, 2010 through December 31, 2010. On March 31, 2011, the County was reimbursed $334,168 through the ERRP program. Please note the ERRP program was funded with $5 billion dollars. The latest release from the ERRP program indicates that $4 billion remain in the fund. Since the ERRP reimbursement funds are reimbursements on non-Medicare eligible retiree claims, it is recommended that the funds received through the ERRP program not be comingled with the Medicare eligible retiree funds.

Since enrollment among non-Medicare retirees participating in the health plan has decreased significantly for 2011 (from 2010), ERRP reimbursements are not expected to be as high as they were for 2010. Mercer recommends the County consider a portion of the ERRP reimbursement for a stabilization reserve against adverse claim fluctuation. The $334,168 2010 ERRP reimbursement could extend health coverage for non-Medicare eligible retirees by 10.0 months.

Mercer estimates the life of the Retiree Health Fund to be 18.4 months (without usage of the ERRP reimbursement) from January 1, 2011. To calculate the life of the Retiree Health Fund Mercer took the current balance ($1,513,014) and deducted the IBNP requirement ($228,145). This balance ($1,284,869) was then divided by $69,520, the cost of the County's monthly contribution for Medicare eligible retirees ($36,400) and non-Medicare eligible retirees ($33,120). The result is an 18.4 month life of the reserve or that the Retiree fund will be exhausted by approximately July 1, 2012. Please note that the life of the Retiree Health Fund is subject to change if plan costs exceed budgeted costs or if reimbursements are not realized.

The County Surveys

Mercer and the County conducted four surveys to gather information for this project. These surveys went to:

- Surrounding public agencies (Option 1)
- Active County employees age 50+ with ten years of service with the County (Option 2 and 3)
- The County's non-Medicare eligible retirees who have dis-enrolled from the retiree health plan (Option 3)

- The County's non-Medicare eligible retirees who were hired after 1998 (post-1998), and do not have the opportunity to participate in the retiree health plan (Option 2 and 3)

Option 1 - Creating a Larger Pool with Other Public Agencies

Mercer conducted a survey of public agencies surrounding the County of Mendocino area to determine how non-Medicare retirees are provided coverage, what plan designs are used, rates and contribution amounts, and if there is an interest to create a pool for non-Medicare eligible retirees.

Releasing the Survey to the Public Agencies:
Mercer identified 42 public agencies to approach for participation in the survey, and submitted the following list to the County for approval.

County of Alameda	County of Napa	County of Lake
County of Contra Costa	County of Sacramento	**County of Marin**
County of Humboldt	County of San Joaquin	**County of Merced**
County of Stanislaus	**County of San Mateo**	County of Sonoma
City of Ukiah	City of Santa Cruz	**City of Fort Bragg**
City of Sonoma	City of Stockton	City of Santa Rosa
City of Lakeport	City of Modesto	City of Yuba City
City of Eureka	City of San Jose	**City of Chico**
City of Napa	City of Palo Alto	City of Sacramento
City of Davis	City of Fremont	**City of Roseville**
Alameda City Unified School District	**Santa Clara Unified School District**	Napa Valley Unified School District
Chico Unified School District	San Jose Unified School District	Stockton Unified School District
West Contra Costa Unified School District	Sonoma Valley Unified School District	**Fremont Unified School District**
Ukiah Unified School District	Ceres Unified School District	Cotati-Rohnert Park Unified School District

*Public agencies in bold text indicate those who participated in the survey

The County approved the list of public agencies. All 42 public agencies were contacted to participate in the survey. Of the 42 public agencies contacted and followed up with, 21 gave verbal confirmation that they were interested in participating in the survey. The survey was sent via email or fax on November 16, 2010. See exhibit A for a copy of the survey that went out to public agencies.

Follow up phone calls and emails were made to the public agencies that received the survey. Only 13 of the 21 groups completed the survey and returned them by the deadline of November 30th, 2010. The following summary of survey results will reflect the feedback provided by the 13 public agencies that participated in the survey.

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Summary of Results:
Mercer compiled the data from the 13 public agencies that provided information on their Retiree health care programs. All 13 respondents currently offer retiree health coverage; however, one group covers only those hired prior to 1985 (see exhibit B for a summary of the results by participant).

It was confirmed that 3 of the 13 respondent groups offer coverage through CalPERS. If participating in CalPERS, the survey participants were instructed to skip questions regarding premium rates and plan design attributes (for those participating in CalPERS, we know they have set plan designs and that the premium rates are blended for active and non-Medicare eligible retirees).

The number of Medicare eligible retirees covered range from groups of 3 to 1,562, with the majority of the responding groups covering 75 retirees or fewer. The number of non-Medicare eligible (early) retirees covered range from groups of 10 to 1,006.

The survey inquiries about general plan design attributes including deductible amount, coinsurance schedule, cost of office visit copayment and out of pocket maximum amount. Deductibles range from $100 to $500, while copays consist of $10, $20 and $25 amounts. The majority of coinsurance schedules, when applicable, were 90% for in-network plans, with one group currently offering a 70% in-network and 30% out of network plan. Out of pocket maximums ranged from $1,000 to $3,000.

Monthly premium rates for the comprehensive PPO plan(s) offered to early retirees were provided by 9 of the 13 respondents, ranging from $720 to $1,306. Premium rates for Medicare PPO plans offered ranged from $400 to $460 per month.

Contributions made toward the early retiree rates for the majority of the responding public agencies ranged from $360 to $725, with a few public agencies providing minimal or no contribution toward the early retiree plan(s) offered. Two respondents indicated that the contributions made toward the early retiree rates were based on a sick leave conversion table.

When posed the question of whether the public agencies would be interested in forming a public agency pool for early retirees, 2 of the 13 groups responded with a "yes" answer, and 2 groups with a "maybe" answer. The 2 respondents confirming strong interest in creating a pool have 400 non-Medicare eligible (early) retirees combined. The remaining 9 groups were not interested, did not respond to the question, or expressed that this decision would be made by their board of supervisors. When prompted in the survey as to what the conditions of consideration would be for forming a public agency pool for early retirees, responses included: comparable coverage for the same cost or a cost savings with assurance of a smooth transition, approval from their current insurance broker, or conditions were unknown as they have not considered the possibility of forming a pool for coverage.

Conclusion:
Since only 2 public agencies expressed interest in forming a public agency pool for early retirees and these particular groups consist of 400 early retirees combined, it does not appear to be beneficial for the County of Mendocino to pursue forming a pool for early retiree coverage.

Option 2 - Increase the size of the pool of participants by opening up the non-Medicare retiree health plan to post-1998 non-Medicare eligible retirees from the County

The County conducted a survey of post-1998 active County employees age 55+ with 10 years of service to help structure a health plan that they would want to participate in. The survey went out November 12th and was due no later than November 30, 2010. See Exhibit C for the survey that went out the active employees. The survey was sent to 174 active employees. Unfortunately, the County only received 8 responses.

The County conducted a survey of employees hired post-1998 and are now retired from the County (Exhibit D). The survey went out November 12th and was due no later than November 30, 2010. The survey was sent to 70 retirees. Unfortunately, the County only received 3 responses.

The lack of responses could be a message to the County that active employees are either a) not interested in non-Medicare retiree health coverage sponsored by the County or b) do not believe the County can come up with a viable non-Medicare retiree health coverage solution. The survey had several intents:

- Determine interest level
- Determine the parameters for the plan design
- Determine the parameters for the premium pricing

Based on the lack of response, Mercer does not recommend the County continue modeling a non-Medicare retiree health coverage for post-1998 active employees.

Option 3 - Change the retiree health plan design to reflect the plan design of those that are dis-enrolling from the plan

A survey went out to those pre-1998 retired County employees who have dis-enrolled from the County sponsored non-Medicare retiree health coverage (Exhibit E). The survey went out November 12th and was due no later than November 30, 2010. The survey was sent to 76 retirees. Unfortunately, the County only received 26 responses.

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The lack of responses could be a message to the County that retirees are either a) not interested in non-Medicare retiree health coverage sponsored by the County or b) do not believe the County can come up with a viable non-Medicare retiree health coverage solution. The survey had several intents:

- Determine interest level
- Determine the parameters for the plan design
- Determine the parameters for the premium pricing

Despite the lack of response Mercer created a table of plan design features that could be implemented to reduce the cost of retiree health coverage.

Deductible Options	Current	Option A1	Option B1
Individual	$500	$1,000	$2,000
Family	$1,500	$3,000	$6,000
Value Annual $	$0	-$39,600	-$94,600
Value %	0.0%	-3.6%	-8.6%
Maximum Out of Pocket Options	**Current**	**Option A2**	**Option B2**
Individual	$4,000	$6,000	$10,000
Family	$8,000	$12,000	$20,000
Value Annual $	$0	-$9,900	-$18,700
Value %	0.0%	-0.9%	-1.7%
Coinsurance Levels	**Current**	**Option A3**	**Option B3**
In-Network	80%	75%	70%
Out-Network	60%	50%	50%
Value Annual $	$0	-$46,200	-$72,600
Value %	0.0%	-4.2%	-6.6%
Emergency Room Copay	**Current**	**Option A4**	**Option B4**
Copayment	$50	$100	$200
Value Annual $	$0	-$2,200	-$7,700
Value %	0.0%	-0.2%	-0.7%
Hospital Deductible	**Current**	**Option A5**	**Option B5**
Inpatient	$0	$100	$500
Value	0.0%	-0.2%	-1.0%
Outpatient	$0	$100	$500
Value Annual $	$0	-$3,300	-$16,500
Value %	0.0%	-0.3%	-1.5%
RX Copayments	**Current**	**Option A6**	**Option B6**
Generic	$10	$10	$15
Formulary Brand	$20	$20	$30
Non-Formulary Brand	$30	$40	$50
Value Annual $	$0	-$2,200	-$17,600
Value %	0.0%	-0.2%	-1.6%
Total Annual Value	**Current**	**Option A**	**Option B**
Value Annual $	$0	-$103,400	-$227,700
Value per Retiree per Month		-$62.90	-$138.50
Value %	0.0%	-9.4%	-20.7%

The table outlines various plan design options the County could consider implementing to reduce the cost of coverage for the non-Medicare eligible retiree health coverage. The values are shown as percentage changes and dollar cost changes in claim cost if the design were changed.

Option 4 - Combine the non-Medicare eligible retiree health plan with the County's active employee plan

As the non-Medicare eligible retiree population that participates in the County sponsored retiree health plan continues to decrease, there will come a point where accurately predicting the future cost of the plan will become too difficult. This will be predominantly due to having few numbers of retirees to spread the risk of adverse claim activity. One solution could be to blend the non-Medicare eligible retiree population with the active employee population. Depending on how the groups are combined there could be a variety of outcomes.

- If the plan fully integrates the active plan and the non-Medicare eligible retiree plan then there would be one set of rates which would apply to both the non-Medicare eligible retiree population and the active employee population (this implies Plan I would be eliminated). In this scenario, it is estimated that the non-Medicare eligible retiree rate would be decreased by 22.1% from $818.78 per retiree per month to $624.06 per retiree per month. The active plan would subsidize the retiree plan by 2.3% or $296,906. Another scenario would be if Plan I is allowed to remain, and the non-Medicare eligible retiree plan rates would mirror plan Plan II rates, this option would carry with it the greatest subsidy from active employees to non-Medicare eligible retirees. It is estimated that the non-Medicare eligible retiree rate would be decreased by 27.5% from $818.78 per retiree per month to $572.37 per retiree per month. The active plan would subsidize the retiree plan by 2.9% or $370,717. Both scenarios take into consideration that the retirees would not be eligible for dental and vision coverage. Additionally, the funded stabilization reserve for the active plan is not applied in this calculation.

- Another approach would be to recognize the demographic and actuarial differences between the two populations and maintain separate rates based on these differences between the two populations. In this approach an inherent actuarial value would differentiate the active plan rates and the non-Medicare eligible retiree plan rates. Should the County want to further consider this option, Mercer can provide the specific actuarial model and pricing.

Mercer recognizes that the blending of these two populations does include its challenges such as:

- Requiring to meet and confer with the bargaining units
- Accounting for the proper usage of the active employee's stabilization reserve
- Accounting for the OPEB Liability associated with offering retiree coverage. Performing an OPEB Liability study averages in cost from $20,000 to $40,000. This study is done and required

to determine the value of subsidies between active employees and retirees and to determine the current and future value of benefits to retirees. The OPEB Liability can impact the County's Bond rating.

Mercer prepared five scenarios to outline the rate and subsidy impact should the County elect to implement a benefits strategy which would blend the active plan with the retiree plan.

- Scenario A is a Status Quo Scenario which represents current rates without any subsidies

- Scenario B Eliminates Plan I and blends all rates so that they are identical
  - This scenario produces a 22.1% cost subsidy from the retiree plan to the active employee plan which would result in a 2.3% cost increase to the active plans

- Scenario C Offers retiree rates which mirror Plan II (dental and vision is excluded for retirees)
  - This scenario produces a 27.5% cost subsidy from the retiree plan to the active employee plan which would result in a 2.9% cost increase to the active plans

- Scenario D Keeps the plans as they are and targets a 15% cost subsidy from the retiree plan to the active employee plan which would result in a 1.6% cost increase to the active plans

- Scenario E Keeps the plans as they are and targets a 10% cost subsidy from the retiree plan to the active employee plan which would result in a 1.0% cost increase to the active plans

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The following exhibit outlines each scenarios rates, annual cost, and subsidies

Current Enrollment	**Active Plan I**	**Active Plan II**	**Retiree Plan II**	**Total**
EE / Retiree Only	51	461	93	605
EE / Retiree + Spouse	24	216	22	262
EE + Child(ren)	14	123	0	137
EE + Family	18	158	0	176
Total	107	958	115	1180
Scenario A - No Changes, Status Quo	**Active Plan I**	**Active Plan II**	**Retiree Plan II**	**Total**
EE (Retiree) Only	$ 880.71	$ 556.38	$ 818.78	
EE (Retiree) + Spouse	$ 1,929.89	$ 1,239.38	$ 1,637.56	
EE + Child(ren)	$ 1,535.30	$ 991.47		
EE + Family	$ 2,626.39	$ 1,703.11		
Annual Premium	$ 1,920,033	$ 10,982,873	$ 1,346,074	$ 14,248,981
Subsidy $ Amount	$0	$0	$ -	
Subsidy %	0.0%	0.0%	0.0%	
Scenario B - Same Rate All Plans	**Active Plan II only**		**Retiree Plan II**	**Total**
EE (Retiree) Only	$ 624.06	$ 624.06	$ 624.06	
EE (Retiree) + Spouse	$ 1,336.07	$ 1,336.07	$ 1,336.07	
EE + Child(ren)	$ 1,047.04	$ 1,047.04	$ 1,047.04	
EE + Family	$ 1,797.54	$ 1,797.54	$ 1,797.54	
Annual Premium	$ 1,330,881	$ 11,868,932	$ 1,049,168	$ 14,248,981
Subsidy $ Amount	$296,906		$ (296,906)	
Subsidy %	2.3%		-22.1%	
Scenario C - Same Rate as Plan II	**Active Plan I**	**Active Plan II**	**Retiree Plan II**	**Total**
EE (Retiree) Only	$ 906.01	$ 572.37	$ 572.37	
EE (Retiree) + Spouse	$ 1,985.34	$ 1,274.99	$ 1,274.99	
EE + Child(ren)	$ 1,579.41	$ 1,019.96	$ 1,019.96	
EE + Family	$ 2,701.85	$ 1,752.04	$ 1,752.04	
Annual Premium	$ 1,975,199	$ 11,298,426	$ 975,357	$ 14,248,981
Subsidy $ Amount	$55,165	$315,552	$ (370,717)	
Subsidy %	2.9%	2.9%	-27.5%	
Scenario D - 15% Retiree Subsidy	**Active Plan I**	**Active Plan II**	**Retiree Plan II**	**Total**
EE (Retiree) Only	$ 894.49	$ 565.09	$ 695.96	
EE (Retiree) + Spouse	$ 1,960.09	$ 1,258.77	$ 1,391.93	
EE + Child(ren)	$ 1,559.33	$ 1,006.99		
EE + Family	$ 2,667.49	$ 1,729.76		
Annual Premium	$ 1,950,079	$ 11,154,739	$ 1,144,163	$ 14,248,981
Subsidy $ Amount	$30,046	$171,866	$ (201,911)	
Subsidy %	1.6%	1.6%	-15.0%	
Scenario E - 10% Retiree Subsidy	**Active Plan I**	**Active Plan II**	**Retiree Plan II**	**Total**
EE (Retiree) Only	$ 889.90	$ 562.18	$ 736.90	
EE (Retiree) + Spouse	$ 1,950.02	$ 1,252.31	$ 1,473.80	
EE + Child(ren)	$ 1,551.32	$ 1,001.81		
EE + Family	$ 2,653.79	$ 1,720.88		
Annual Premium	$ 1,940,064	$ 11,097,450	$ 1,211,467	$ 14,248,981
Subsidy $ Amount	$20,030	$114,577	$ (134,607)	
Subsidy %	1.0%	1.0%	-10.0%	

Based on the 75% /25% County to Employee Contribution requirements, the following table illustrates the impact to the County and employees for each scenario:

Subsidy breakout by 75% / 25% County to Employee Contribution Split	Scenario B - Same Rate All Plans	Scenario C - Same Rate as Plan II	Scenario D - 15% Retiree Subsidy	Scenario E - 10% Retiree Subsidy
Retiree Subsidy	$ 296,906	$ 370,717	$ 201,911	$ 134,607
Additional County Contribution	$ 222,679	$ 278,038	$ 151,433	$ 100,956
Additional Employee Contribution	$ 74,226	$ 92,679	$ 50,478	$ 33,652

Scenario A outlines the current arrangement and does not include any subsidies. Please note that all rates are based on 2011. The County may want to update this exhibit once the 2012 renewals are completed.

Impact upon Exhaustion of Retiree Health Fund -
(July, 2012 Medicare Eligible Retirees, May, 2013 non-Medicare Eligible Retirees)

It is projected that the retiree fund will be exhausted on or around July 1, 2012 for Medicare eligible retirees and May 1, 2013 for non-Medicare eligible retirees. This means that the County contributions towards both the Medicare eligible retirees and the non-Medicare eligible retirees will cease. The Medicare eligible retirees and the non-Medicare eligible retirees will be responsible for 100% of the cost of their coverage.

Medicare eligible retirees can continue to be offered coverage through ExtendHealth. However the County's $104 per retiree contribution into the Health Reimbursement Account (HRA) will cease. This means that the potential cost for health care coverage could increase by $104 for Medicare eligible retirees.

Non-Medicare eligible retirees could continue to be offered coverage through the County. One hundred percent of the cost would be paid by the retirees. The County's $288 per retiree contribution towards coverage will cease. This means that the potential cost for health care coverage could increase by $288 for non-Medicare eligible retirees. For 2011, the cost of coverage is $818.78 per retiree per month. This amount is subject to change when the cost of coverage is underwritten and rates are developed for 2012 and 2013.

Impact of Healthcare Reform on the Non-Medicare Eligible Retiree Plan

Under healthcare reform, effective 2014 healthcare exchanges will be set up which will allow individuals (including non-Medicare eligible retirees) to elect coverage from the healthcare exchanges. One strategy the County may want to consider is bridging coverage to 2014 which will allow non-Medicare eligible retirees to purchase coverage via the exchanges. It is currently estimated that the retiree health fund for non-Medicare eligible retirees will be exhausted by May 1, 2013. An eight month gap would exist to 2014.

Potential Strategies for Implementation Upon Exhaustion of the Retiree Health Fund

For the Medicare eligible retirees it is recommended that the County offer ExtendHealth without a County contribution.

Currently there are 115 retirees and 22 dependents covered under the County's non-Medicare eligible retiree plan. The $288 County contribution amounts to an average monthly total of $33,120. For the non-Medicare eligible retirees the County has several options:

1. Discontinue offering health coverage for non-Medicare eligible retirees. The potential impact could be that some non-Medicare eligible retirees will be ineligible for coverage elsewhere.

2. Continue offering health coverage for non-Medicare eligible retirees. Based on the decreasing enrollment, Mercer recommends that if this option is selected that the non-Medicare eligible retirees plan be combined with the active employee plan. If this option is selected, the County will need to determine:
   A. What plan design to offer
   B. What if any subsidy the active plan will provide the non-Medicare eligible retiree plan.

   Since the active plan is funded with a stabilization reserve, it could be argued that the non-Medicare eligible retiree plan must also provide a stabilization reserve of equal proportion. The ERRP reimbursements could be used as a stabilization reserve to satisfy this argument.

3. Bridge coverage to 2014. To bridge the $288 monthly County contribution for eight months would require an additional $264,960. There are several approaches the County could take to bridge the coverage.
   A. Reserve future ERRP recoveries for a reserve to fund the additional eight months. Note: it is uncertain whether future ERRP recoveries will be sufficient to bridge the gap.
   B. Reduce County contribution from $288 per employee to bridge the Contribution an additional eight months. One example would be effective July 1, 2012 the County contribution would be reduced from $288 to $161 to extend the County contribution to 2014.
   C. Modify the plan design (Option B plan design) effective January 1, 2012 to reduce the rates and create retiree savings equivalent to the 8 months ($264,960). Retirees would need to

D. Implement a blend of A, B and C.

Summary

The County may want to consider a benefits strategy that utilizes Options 3 (Change the retiree health plan design to reflect the plan design of those that are dis-enrolling from the plan) and 4 (Combine the non-Medicare eligible retiree health plan with the County's active employee plan) and look for a strategy which would extend the non-Medicare eligible retiree health plan to 2014.

It appears from the response of the surveys that option 1 (Creating a Larger Pool with Other Public Agencies) and option 2 (Increase the size of the pool of participants by opening up the non-Medicare retiree health plan to post-1998 non-Medicare eligible retirees from the County) would not be viable options.

We look forward to reviewing these results with the County. If you have any questions, please do not hesitate to contact me at 916-286-5403.

Sincerely,

Bordan Darm

Bordan Darm
Principal

Exhibit A

SURVEY OF PUBLIC AGENCIES – RETIREE HEALTH

The County of Mendocino is interested in learning if/how other Public Agencies provide retiree healthcare and determining whether other Public Agencies are interested in forming a pool specifically for non-Medicare Retiree Health Coverage. We ask that you participate in this short survey. A copy of the survey results will be provided to you for your participation in January 2011. Please respond by **Tuesday, November 30, 2010**.

1. Do you currently offer retiree health (Medical/RX) coverage? Yes/ No
2. Have you ever offered retiree health (Medical/RX) coverage? Yes / No
3. If yes to #2, when did you discontinue retiree coverage? _______
4. How many Medicare eligible retirees are covered under your plan? _______
5. How many non-Medicare eligible (early) retirees are covered under your plan? _______
6. Is coverage offered through CalPERS? (if yes, please skip questions 7-13) Yes / No
7. Are early retiree rates separate from active employees or Medicare eligible retirees? Yes / No
8. Are early retiree rates blended with active employee rates? Yes / No
9. Are early retiree rates blended with Medicare eligible retiree rates? Yes / No
10. Please share the monthly Early Retiree premium rate for comprehensive PPO coverage retiree only. _______
11. What is the In-Network deductible, coinsurance, office visit copayment, and maximum out-of-pocket for Early Retiree coverage? If more than 1 plan is offered, please provide information for least expensive plan.
    Ded. __________ Coins._________ OV Copay_________ OOP Max. ____________
12. Please share the monthly Medicare eligible retiree premium rate for comprehensive PPO coverage retiree only.
    ____
13. What is the In-Network deductible, coinsurance, office visit copayment, and maximum out-of-pocket for Medicare eligible retiree coverage? If more than 1 plan is offered, please provide information for least expensive plan.
    Ded. __________ Coins.________ OV Copay________ OOP Max. ____________
14. What is the Public Agency monthly contribution towards the early retiree rate? ____________________________
15. What is the Public Agency monthly contribution towards the Medicare eligible retiree rate? __________________
16. Would you be interested in forming a Public Agency Pool for Early Retiree for coverage? Yes / No
17. What would it take for you to participate in a Public Agency Pool for Early Retiree for coverage? _____________
    ____
    ____

Please remit your survey to Sadie Panco, Mercer Consulting, at sadie.panco@mercer.com or fax it to (916) 286-5401. Survey results will be provided in January 2011. If you have any questions regarding this survey please contact Sadie Panco at (916) 286–5408. Thank you for your participation,

Exhibit B

County of Mendocino: Survey Responses from Public Agencies

PROGRAM STRUCTURE	County of Mendocino	County of Marin	County of Merced	County of San Mateo	County of Sonoma	City of Chico	City of Fort Bragg	City of Eureka	City of Lakeport	City of Napa	City of Roseville	Fremont USD	Santa Clara USD	Ukiah USD
Do you currently offer retiree health (Medical/RX) coverage?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes, hired prior to 1985 only (effectv mid 90s)	Yes	Yes	Yes	Yes	Yes
Is coverage offered through CalPERS?	No	No	No	No	No	No	No	No	No	Yes	Yes	Yes	No	No
Are early retiree rates separate from active employees or Medicare eligible retirees?	Yes	In Some Cases	Yes	Yes	Yes	Yes	Yes	Yes	Yes	CalPERS	CalPERS	CalPERS	Yes	Not Provided
Are early retiree rates blended with active employee rates?	No	In Some Cases	Yes	Yes	Yes	Yes	No	No	No	CalPERS	CalPERS	CalPERS	No	Yes
Are early retiree rates blended with Medicare eligible retiree rates?	No	In Some Cases	No	No	No	No	No	No	No	CalPERS	CalPERS	CalPERS	Yes	No
EARLY RETIREE PLAN(S) OFFERED	**County of Mendocino**	**County of Marin**	**County of Merced**	**County of San Mateo**	**County of Sonoma**	**City of Chico**	**City of Fort Bragg**	**City of Eureka**	**City of Lakeport**	**City of Napa**	**City of Roseville**	**Fremont USD**	**Santa Clara USD**	**Ukiah USD**
How many non-Medicare eligible (early) retirees are covered under your plan?	137	Not Provided	342	575	1,006	73	10	19	17	71	Not Provided	300	59	100
Please share the monthly Early Retiree premium rate for comprehensive PPO coverage retiree only.	$731.20	$930.13	Actual-$1,047.40; blended-$693.12	$680.72	$758.41	$648.22	$591.30	$591.30	$591.30	CalPERS	CalPERS	CalPERS	$1,305.73	$720.88
Early retiree plan attibutes														
Deductible	$500	$100	$200	NA	$300	$250	$250	$250	$250	CalPERS	CalPERS	CalPERS	HMO plan only	$500
Coinsurance	80%/60%	90%	0%	NA	90%/60%	80%/60%	0%			CalPERS	CalPERS	CalPERS		70/30
Office Visit	80%	90%	$15	$10	$20	$25	$25	$25	$25	CalPERS	CalPERS	CalPERS		-
Out of Pocket Max	$4,000	$1,000	$2,000	NA	$2,000	$3,000	$0	Unlimited		CalPERS	CalPERS	CalPERS		$1,500
What is the Public Agency monthly contribution towards the early retiree rate?	$288.00	Provided attachments with Rates	Actual-$721.11; blended-$366.83	amt based on a sick leave conversion formula	$558.48	$0.00	0% or 100%	$0.00	$368.00	Flat amt or amt based on a sick leave conversion formula	Same for all retirees equal to active ees at this time	$99.75	$493.53 for four years	$0.00
MEDICARE PLAN(S) OFFERED	**County of Mendocino**	**County of Marin**	**County of Merced**	**County of San Mateo**	**County of Sonoma**	**City of Chico**	**City of Fort Bragg**	**City of Eureka**	**City of Lakeport**	**City of Napa**	**City of Roseville**	**Fremont USD**	**Santa Clara USD**	**Ukiah USD**
How many Medicare eligible retirees are covered under your plan?	491	Not Provided	605	1,341	1,562	8	21	3	25	23	Not Provided	5	72	0
Please share the monthly Medicare eligible retiree premium rate for comprehensive PPO coverage retiree only.	Various rates through ExtendHealth	$684.76	$454.52	$429.82	$0	$648.22	$411.19	$441.41	Not Provided	Not Provided	Not Provided	Not Provided	Not Provided	None
Medicare eligible retiree plan attibutes														
Deductible	Various plans provided through ExtendHealth	$100	$155	NA	$300	$250	$0	$250	Not Provided	CalPERS	CalPERS	CalPERS	HMO plan only	None offered
Coinsurance		90%	0	NA	90/60	80%/60%	0	0	Not Provided	CalPERS	CalPERS	CalPERS		None offered
Office Visit		90%		$10	$20	$25	$0	$25	Not Provided	CalPERS	CalPERS	CalPERS		None offered
Out of Pocket Max		$1,000	$0	NA	$2,000	$3,000	$0	Unlimited	Not Provided	CalPERS	CalPERS	CalPERS		None offered
What is the Public Agency monthly contribution towards the Medicare eligible retiree rate?	$104.00	Based on entry date ($150 up to 100% paid)	$321.11	amt based on a sick leave conversion formula	$408.01	$0.00	100% for current; 0% for new	$0.00	$368.00	Flat amt or amt based on a sick leave conversion formula	By bargaining unit $1,005-$1,190.57	$99.75	$493.53 for four years	$598.88
PUBLIC AGENCY POOL FOR EARLY RETIREES	**County of Mendocino**	**County of Marin**	**County of Merced**	**County of San Mateo**	**County of Sonoma**	**City of Chico**	**City of Fort Bragg**	**City of Eureka**	**City of Lakeport**	**City of Napa**	**City of Roseville**	**Fremont USD**	**Santa Clara USD**	**Ukiah USD**
Would you be interested in forming a Public Agency Pool for Early Retiree for coverage?	Survey Requestor	Maybe	Board Decisions	Maybe	No	No	No	No	No	Not Provided	No	Yes	No	Yes
What would it take for you to participate in a Public Agency Pool for Early Retiree for coverage?	Survey Requestor	Not Provided	Board Decisions	Demonstrate cost savings	No reply	Unknown, have not considered this	We currently are very satisfied with our plan administrator	Approval with current insurance broker	We are already members of a pool	Not Provided	Not Provided	Not Provided	Not Provided	Comparative comparable coverages - same or less money and ease in transition

Exhibit C

SURVEY OF ACTIVE EMPLOYEES – RETIREE HEALTH

The County of Mendocino is interested in exploring the option of offering non-Medicare eligible retiree coverage to active employees who started employment post-1998 and will retire with 10 years of service and are at least 55 years of age. The coverage would be 100% retiree funded (no County contribution). We ask that you participate in this short survey to help us determine the feasibility of this option.

1. The 2011 non-Medicare eligible retirees (early retiree) rate is $818.78 per retiree per month. The benefits duplicate Plan II medical and prescription drug coverage (excludes dental and vision coverage). If you plan on retiring in 2011, would you be willing to enroll in this plan? Yes / No
2. If yes or no, please explain why. ____________________

   ____

   ____

   ____
3. Which of the following benefit designs and rates are most appealing to you? (please circle one)
   a) $500/mo. retiree rate - $2,000 deductible, 25% coinsurance**, $10,000 annual maximum out of pocket
   b) $600/mo. retiree rate - $1,500 deductible, 25% coinsurance**, $8,000 annual maximum out of pocket
   c) $700/mo. retiree rate - $1,000 deductible, 25% coinsurance**, $6,000 annual maximum out of pocket
   d) $800/mo. retiree rate - $500 deductible, 25% coinsurance**, $4,000 annual maximum out of pocket
   ** Coinsurance is the amount you would pay after services or care has been received and the plan has paid its share.
4. What is your current age? ________
5. What year do you plan on retiring from County service? ________
6. Would you require spousal coverage? Yes / No
7. What would it take for you to participate in a County offered early retiree health plan (ages 55 to 65 or otherwise non-medicare eligible)? ____________________

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Please remit your survey to Human Resources via email to grahamdm@co.mendocino.ca.us or mail to Human Resources, Benefits Administration, 579 Low Gap Road, Ukiah, CA 95482. **Surveys must be received by November 30, 2010** to be included in the analysis. Thank you for your participation.

****ALL RESPONSES WILL REMAIN CONFIDENTIAL****

Exhibit D

SURVEY OF EARLY RETIREES – RETIREE HEALTH

HIRED AFTER SEPTEMBER 1998

The County of Mendocino is interested in exploring the option of offering non-Medicare eligible retiree coverage to retirees who started employment post-1998 and have retired with 10 years of service and are at least 55 years of age. The coverage would be 100% retiree funded (no County contribution). We ask that you participate in this short survey to help us determine the feasibility of this option.

18. The 2011 non-Medicare eligible retirees (early retiree) rate is $818.78 per retiree per month. The benefits duplicate Plan II medical and prescription drug coverage (excludes dental and vision coverage). If offered, would you be interested in enrolling in this plan? Yes / No
19. If yes or no, please explain why. ____________________
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____
____
20. Which of the following benefit designs and rates are most appealing to you? (please circle one)

a) $500/mo. retiree rate - $2,000 deductible, 25% coinsurance**, $10,000 annual maximum out of pocket

b) $600/mo. retiree rate - $1,500 deductible, 25% coinsurance**, $8,000 annual maximum out of pocket

c) $700/mo. retiree rate - $1,000 deductible, 25% coinsurance**, $6,000 annual maximum out of pocket

d) $800/mo. retiree rate - $500 deductible, 25% coinsurance**, $4,000 annual maximum out of pocket

** Coinsurance is the amount you would pay after services or care has been received and the plan has paid its share.

21. What is your current age? ____________
22. Would you require spousal coverage? Yes / No
23. What would it take for you to participate in a County offered early retiree health plan (ages 55 to 65 or otherwise non-medicare eligible)? ____________________
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Please remit your survey to Human Resources via email to grahamdm@co.mendocino.ca.us or mail to Human Resources, Benefits Administration, 579 Low Gap Road, Ukiah, CA 95482. **Surveys must be received by November 30, 2010** to be included in the analysis. Thank you for your participation.

****ALL RESPONSES WILL REMAIN CONFIDENTIAL****

Exhibit E

SURVEY OF EARLY RETIREES – RETIREE HEALTH
REASON FOR TERMINATING COVERAGE

The County of Mendocino is interested in learning why those qualifying for the Non-Medicare eligible retiree health plan chose not to enroll. We ask that you participate in this short survey to help us determine the feasibility of offering a different plan option.

Reason for Terminating Coverage:

____

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1. If offered, which of the following benefit designs and rates would you be interested in? (please circle one)
   a) $500/mo. retiree rate - $2,000 deductible, 25% coinsurance**, $10,000 annual maximum out of pocket
   b) $600/mo. retiree rate - $1,500 deductible, 25% coinsurance**, $8,000 annual maximum out of pocket
   c) $700/mo. retiree rate - $1,000 deductible, 25% coinsurance**, $6,000 annual maximum out of pocket

** Coinsurance is the amount you would pay after services or care has been received and the plan has paid its share.

2. If none of the above are a viable option to you, what would it take for you to participate in a County offered early retiree health plan (ages 55 to 65 or otherwise non-medicare eligible)? ____________________________

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____

3. What is your current age? _______

4, Would you require spousal coverage? Yes / No

Please remit your survey to Human Resources via email to grahamdm@co.mendocino.ca.us or mail to Human Resources, Benefits Administration, 579 Low Gap Road, Ukiah, CA 95482. **Surveys must be received by November 30, 2010** to be included in the analysis. Thank you for your participation.

****ALL RESPONSES WILL REMAIN CONFIDENTIAL****

T2-1150

AGENDA ITEM NO. 7A – UPDATE ON STATUS OF RETIREE HEALTH PLAN AND DISCUSSION AND POSSIBLE ACTION ON ASSOCIATION OF MENDOCINO COUNTY RETIRED EMPLOYEES (AMCRE) REQUEST TO FURTHER EVALUATE OPTIONS FOR PROVIDING HEALTH CARE FOR QUALIFYING NON-MEDICARE ELIGIBLE RETIREES INCLUDING BLENDING INTO THE ACTIVE EMPLOYEE HEALTH PLAN (SPONSOR: HUMAN RESOURCES)
Presenter/s: Ms. Carmel J. Angelo, Chief Executive Officer; Ms. Pat Meek, Human Resources Director; and Ms. Sue Goodrick, Human Resources Manager.

Public Comment: Ms. Sue Thornhill; Ms. Marsha Wharff; Mr. Richard Shoemaker; and Ms. Carol Mordhorst.

Board Action: Upon motion by Supervisor Hamburg, seconded by Supervisor McCowen, and carried (4/1, with Supervisor Pinches dissenting); IT IS ORDERED that the Board of Supervisors directs staff to discontinue Non-Medicare Eligible Retiree Health Plan effective upon a 90-day notice; directs staff to form a committee with meetings open to the public, along the lines of the committee requested through the AMCRE letter to the Board of Supervisors, dated October 24, 2011; and directs staff to bring the item back to the Board within 60 days for further discussion and possible action.

Board Directive: BY ORDER OF THE CHAIR the Board will adjourn to Closed Session and a working lunch, and will reconvene in Open Session at 1:30 p.m.

ADJOURNED TO CLOSED SESSION AND WORKING LUNCH: 12:57 P.M.

AGENDA ITEM NO. 12F – PURSUANT TO GOVERNMENT CODE SECTION 54956.9(A) - CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION: REGENTS OF THE UNIVERSITY OF CALIFORNIA V. MENDOCINO COUNTY, MENDOCINO COUNTY SUPERIOR COURT CASE NO. CPF-09-509289

AGENDA ITEM NO. 12G – PURSUANT TO GOVERNMENT CODE SECTION 54956.9(C) - CONFERENCE WITH LEGAL COUNSEL - INITIATION OF LITIGATION: ONE CASE (LIGHT V. CALIFORNIA STATE WATER RESOURCES CONTROL BOARD) (CONTINUED FROM 11/8/11)

RECONVENED IN OPEN SESSION: 1:41 P.M.

T3-1600

AGENDA ITEM NO. 12 – REPORT OUT OF CLOSED SESSION
Presenter: Chair Smith.

Board Action: No action taken.

AGENDA ITEM NO. 7B – NOTICED PUBLIC HEARING – DISCUSSION AND POSSIBLE ACTION ON APPEAL OF PLANNING COMMISSION DECISION TO APPROVE USE PERMIT RENEWAL 49-1985/2009 AND USE PERMIT NO. U 15-2009 (OWNER: DAVID AND KATHRYN LOWE; APPLICANT: KATHRYN LOWE FOR NORTH AMERICAN ORGANICS; APPELLANT: PAMELA RICETTI; LOCATION: HELD ROAD, REDWOOD VALLEY AREA) (SPONSOR: PLANNING AND BUILDING SERVICES)
Presenter/s: Mr. Roger Mobley, Chief Planner and Mr. Dusty Duley, Planner II.

Public Comment: Ms. Rose Zoia, representing the Appellant; Mr. Matthew Cotton, Integrated Waste Management Consulting, representing the Applicant; Ms. Kathy Lowe, owner; Mr. Dave Lowe, owner; Mr. Jim Johnson; Ms. Julia Coppola; Ms. Rose Zedicher; Mr. Steve Scalmanini; Mr. Marc Imerone; and Mr. Merle Reuser.

Board Action: Motion by Supervisor Brown, seconded by Supervisor Pinches, that the Board of Supervisors upholds the Planning Commission's decision and approves Use Permit Renewal No. UR 49-1985/2009 and Use Permit No. U 15-2009 making the following findings:

- Environmental Finding: That mitigation measures required for the project will reduce potentially significant impacts to a less than significant level and that a Mitigated Negative Declaration be adopted.

MENDOCINO COUNTY BOARD OF SUPERVISORS
ONLINE AGENDA SUMMARY

BOARD AGENDA #_____

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-Transmittal of electronic Agenda Summaries and associated records must be emailed to: bosagenda@co.mendocino.ca.us
-Electronic Agenda Transmission Checklist: ☒ Agenda Summary ☐ Records ☐ If applicable, list other online information below

TO: Board of Supervisors — DATE: January 18, 2012

FROM: Human Resources — MEETING DATE: January 24, 2012

DEPT RESOURCE: Carmel Angelo, CEO — PHONE: 463-4441 Present ☒ On Call ☐
Pat Meek, HR Director — PHONE: 463-4261 Present ☒ On Call ☐
Sue Goodrick, HR Manager

Consent Agenda ☐ Regular Agenda ☒ Noticed Public Hearing ☐ Time Allocated for Item: 1 hr

AGENDA TITLE: Presentation and Possible Action on Retiree Health Plan Work Group Recommendations on the Termination and Alternatives to the Termination of the Non-Medicare Eligible Retiree Health Plan Effective February 29, 2012

- **PREVIOUS BOARD/BOARD COMMITTEE ACTIONS:** On September 27, 2011 the Board approved a premium level increase for Non-Medicare Eligible Retiree Health Plan to fully fund plan costs for 2012 and authorized staff to send 90-day notification letters of the Retiree Health Fund depletion to Medicare Eligible Retirees and Non-Medicare Eligible Retirees. On November 15, 2011, the Board authorized staff to discontinue the Non-Medicare Eligible Retiree Health Plan effective upon a 90-day notice. The Board further directed staff to "form a committee with meetings open to the public, along the lines of the committee requested through the AMCRE letter to the Board of Supervisors, dated October 24, 2011"; and directed staff to bring the item back to the Board within 60 days for further discussion and possible action. The AMCRE letter requested "a short-term, 60 day working group be formed to go though the Mercer report options for preserving the retiree health care plan with an eye to overcoming the hurdles mentioned in the report".
- **SUMMARY OF REQUEST:**

At the Board of Supervisor's direction, a working group consisting of Human Resources staff, the County's Health Plan Consultant (Peter McNamara, Keenan & Associates), and retiree representatives Carol Mordhorst, Richard Shoemaker, Marsha Wharff and Sue Thornhill met on four occasions to discuss alternative options for preserving health care for non-medicare eligible retirees as a result of the County's determination to discontinue the Retiree Health Plan effective February 29, 2012.

Attachment 1 summarizes (in order of preference) the retiree work group's recommendation for providing health care coverage to non-Medicare eligible retirees through December 2013 at which time Health Care Reform provisions make available an "exchange program" to provide future health care coverage for non-Medicare eligible retirees. Retiree representatives to the working group will be present to discuss their recommendations.

Attachment 2 summarizes the analysis of various alternative health plan options reviewed by the working group. Should the Board rescind the November 15, 2011 direction regarding termination of the Non-Medicare Eligible Retire Health Plan, Human Resources Staff, the County Executive Officer, and the County's Health Plan Consultant, recommend the Board: 1) Continue to offer the current plan (at $922.56 per participant fully paid by the participant) through December 31, 2012 returning to the Board with quarterly updates on plan experience and funding levels; 2) Allow for the approximate 60 non-Medicare eligible retirees who were participants in the retiree health plan in September 2011 (prior to the notification of the rate increase and elimination of the County subsidy) who subsequently dropped from the plan to have the opportunity to re-enroll with an effective date of March 1, 2012 at the same premium rate; 3) Return to the Board in August/September 2012 with a possible renewal option for Plan Year 2013 based on the experience levels of the participant group and the status of the Retiree Health Plan Trust Fund at that time; 4) Should the Board determine, after review of the proposed renewal rates for Plan Year 2013, its desire to retain the Retiree Health Plan for Plan (Calendar) Year 2013, confirm the Board's intent to terminate retiree health plan effective December 31, 2013 at which time the Health Care Reform exchange program is expected to be implemented. Refer to attached staff report for details.

BOARD ACTION (DATE: __________): ☐ Approved ☐ Referred to ____________ ☐ Other ________
RECORDS EXECUTED: ☐ Agreement: ________ ☐ Resolution: ________ ☐ Ordinance: ________ ☐ Other ________

MENDOCINO COUNTY BOARD OF SUPERVISORS

BOARD AGENDA #_____

ONLINE AGENDA SUMMARY

■ SUPPLEMENTAL INFORMATION AVAILABLE ONLINE AT: www.co.mendocino.ca.us/administration/

■ ADDITIONAL INFORMATION ON FILE WITH THE CLERK OF THE BOARD (CHECKED BY COB IF APPLICABLE): ☐

FISCAL IMPACT:			
Source of Funding	Current F/Y Cost	Annual Recurring Cost	Budgeted in Current F/Y
N/A	N/A	N/A	Yes ☐ No ☒

■ SUPERVISORIAL DISTRICT: 1☐ 2☐ 3☐ 4☐ 5☐ All☒ ■ VOTE REQUIREMENT: Majority☒ 4/5ths☐

■RECOMMENDED ACTION/MOTION: **1) Accept presentation from Staff and Retiree Health Plan Work Group on Recommendations on Termination and Alternatives to the Termination of the Non-Medicare Eligible Retiree Health Plan Effective February 29, 2012; 2) Should the Board rescind the November 15, 2011 direction regarding termination of the Non-Medicare Eligible Retire Health Plan 2a) Continue to offer the current plan (at $922.56 per participant fully paid by participant) through December 31, 2012 returning to the Board with quarterly updates on plan experience and funding levels; 2b) Allow for the approximate 60 non-Medicare eligible retirees who were participants in the retiree health plan in September 2011 (prior to the notification of the rate increase and elimination of the County subsidy) who subsequently dropped from the plan to have the opportunity to re-enroll with an effective date of March 1, 2012 at the same premium rate; 2c) Return to the Board in August/September 2012 with a possible renewal option for Plan Year 2013 based on the experience levels of the participant group and status of the Retiree Health Plan Trust Fund at that time; 2d) Should the Board determine, after review of the proposed renewal rates for Plan Year 2013, its desire to retain the Retiree Health Plan for Plan (Calendar) Year 2013, confirm the Board's intent to terminate retiree health plan effective December 31, 2013 at which time the Health Care Reform exchange program is expected to be implemented.**

■ ALTERNATIVES: 1) Choose alternative Retiree Health Plan option; 2) Provide staff with direction based on report options and/or the retiree work group's recommendations.

■ CEO REVIEW (NAME): Carmel J. Angelo PHONE: 463-4441

RECOMMENDATION: Agree ☒ Disagree ☐ No Opinion ☐ Alternate ☐ Staff Report Attached ☐

BOARD ACTION

❑ Approved ______________

❑ Records Executed ______________

Date of Meeting ______________

❑ Referred to ______________

❑ Other ______________

NON-MEDICARE ELIGIBLE RETIREE HEALTH PLAN

RETIREE HEALTH PLAN WORKGROUP EVALUATION OF ALTERNATIVES FOR PERSERVING RETIREE HEALTH CARE PLAN BEYOND FEBRUARY 29, 2012 TERMINATION DATE

January 18, 2012

Human Resources – Staff Report

Background/Issue

September 21, 2011: The Board received formal notification from the Board of Retirement of its intent to not release the balance of excess earnings ($658,654) that had been set aside to pay for retiree health benefits.

September 27, 2011: The Board of Supervisors authorized the increase in premium levels for the Non-Medicare Eligible Retiree Health Plan to fully fund plan costs in the amount of $922.56 per retiree per month effective January 1, 2012. This increase was the result of the potential loss (or delay) in the receipt of the balance of excess earnings in the amount of $658,654 held by the Board of Retirement, the information provided in the 2012 Non-Medicare Eligible Retiree Premium Renewal Report prepared by Keenan & Associates, and the unanticipated significant increases in recent Non-Medicare eligible retiree claims costs.

In addition staff was directed to send 90-day notification letters of the Retiree Health Fund depletion to Medicare and non-Medicare Eligible retirees. For Medicare eligible retirees, the notification stated the County's intent to discontinue its $104 per month Health Reimbursement Account (HRA) contribution effective December 31, 2011. The notice to Non-Medicare Eligible Retirees identified the increase in their premium rates for 2012 and the County's intent to discontinue its $288 per month contribution towards health plan premiums effective January 1, 2012.

The Board further authorized the Auditor to set up a separate account to fund the Medicare Eligible Retirees HRA contributions in the amount of approximately $107,016 for the County to finance the Medicare Eligible Retirees HRA contributions for the 90-day noticing period.

November 1, 2011: Staff was informed of a letter received by the Board of Supervisors from the Association of Mendocino County Retired Employees (AMCRE) dated October 24, 2011 (attached). The letter requested the Board consider establishing a short-term (60-day) working group to review the alternatives for Non-Medicare Eligible Retirees health care coverage as prepared by Mercer Consulting on April 8, 2011 and presented to the Board on May 23, 2011. On November 1, 2011, the Board directed staff to prepare an agenda report to discuss this request.

November 15, 2011: Staff provided the Board with an update on the status of the Retiree Health Plan. Staff received direction from the Board to terminate the retiree health plan upon giving participants a 90-day termination notice based on the following factors:

- An approximate 45% decrease in plan participants for Plan Year 2012 resulting from the Open Enrollment process
- Assumption that based on the cycle of the diminishing number of non-Medicare eligible retiree health plan participants, a re-evaluation of premium rates would result in increased rates, which then requires a 90 day notice and conducting another open enrollment and possible further reduction in enrollees
- Reduction in anticipated collected premiums
- Anticipated funding levels necessary to pay the full cost of the retiree health plan (based on significant increases in claims experience)
- Current Health Plan fund deficit
- Lack of a Retiree Health Plan Stabilization Reserve
- Potential Impacts to County's General Fund
- Unknown status/ability to collect ERRP funds

Staff also received Board direction to proceed with the formulation of the AMCRE requested working group, reporting back to them on the results of this review/analysis in 60 days.

January 24, 2012: Staff wishes to report to the Board the results of the Retiree Health Plan Workgroup efforts, and, if the Board desires to rescind the retiree health plan termination effective February 29, 2012, make a recommendation (Attachment 2) for retaining the current retiree health plan, allow the retiree representatives an opportunity to present their proposed alternative options (Attachment 1), and obtain Board direction on how to proceed.

Current Premium Rates

Attachment 3 shows the current premium levels of both the Active and Retiree Health Plans for Plan Years 2011 and 2012 and provides an explanation on the determination of the retiree health plan rates for 2012.

Current Status – Enrollment

As reported in November, as the retiree participant pool diminishes so does the ability to market the plan based on the experience and size of the group. Insurance companies have deemed the non-Medicare eligible retiree health plan participant group as a not "credible" group. (Refer to Attachment 1 for explanation of "credible"). In addition, it is unlikely the remaining participants in the plan will be able to continue to pay increased premiums based on the distribution of costs over a smaller base group. Keenan & Associates, the County's Health Plan Consultant, had indicated that rates for 2012 would need to be re-evaluated if 10% (or approximately 11) of the then current participants (in September 2011) dis-enrolled.

Plan Participant Levels:		
October 2011:	102	retirees plus 11 dependents (or a total of 113)
January 2012:	52	retirees and 9 dependents (or a total of 61)
Future Enrollment Levels:		
Plan Yr 2012:	16	active employees ineligible for retiree health due to Medicare eligibility status by 12/31/12
Plan Yr 2012:	195	active employees eligible if retire by 12/31/12
Plan Yr 2013:	6	active employees ineligible for retiree health due to Medicare eligibility status by 12/31/13
Plan Yr 2013:	8	active employees eligible if retire by 12/31/13
Total Actives:	292	active employees eligible for retiree health plan
Actuarial Analysis:	63	active employees will retiree/enroll in Retiree Health Plan in 2012 & 2013

Keenan has re-evaluated the retiree health plan costs based on the reduction in participants determined by the most recent open enrollment. Since both sized groups (113 in October 2011 as compared to 61 in January 2012) are not credible, it was determined that although the number of participants dropped significantly, the current established rates of $922.56 would most likely continue to provide full program funding.

Current Status - Funding

As identified by the Auditor's Office, as of December 31, 2011 the Retiree Trust Fund showed a deficit of $386,285. However, this deficit does not include the Early Retiree Reinsurance Program (ERRP) funding currently being held in a separate fund in the amount of $402,156. Pending finalization of Keenan's audit of the funds received to date, and the revised federal government guidelines on qualifying for these funds, it is anticipated that the County will be required to return approximately $137,029 of the ERRP funds received. Based on the receipt, deposit, and anticipated return of a portion of these funds, with the transfer of the balance of ERRP funds of $265,127, the Retiree Health Fund presently has a **cash deficit balance ending December 2011 of approximately $121,158**. Keenan has submitted a final ERRP claims reimbursement request in the amount of $151,595. However, the County will be unable to accept this funding if it is received after February 29, 2012 (the termination date of the retiree health plan). Based on December 31, 2011 figures, if the retiree health plan continues, and the County continues to qualify for ERRP funding, the Retiree Health Fund would have a cash balance of $30,437.

Not accounted for in the estimates above is the $5,000 - $10,000 cost incurred for the Other Post Employment Benefits (OPEB) analysis performed by AON Actuarial Consulting Firm on potential OPEB liabilities associated with the various retiree health plan options reviewed by the Workgroup.

The Non-Medicare Eligible and Medicare Eligible Retiree health expenses are maintained and accounted for in separate accounts. The figures above do not account for the approximate $105,432 of County funds necessary to finance Medicare Eligible Retirees HRA contributions during the required 90 day notification period of the County's termination of the program effective December 31, 2011 due to retiree health trust fund depletion. The Executive Office plans to address this unanticipated expense during the mid year budget review scheduled for February 14, 2012.

Retiree Health Plan Workgroup

The Retiree Health Plan Workgroup, facilitated by Pat Meek (HR Director), with Sue Goodrick (HR Benefits Manager), Peter McNamara of Keenan & Associates and retiree representatives (Sue Thornhill, Marsha Wharff, Richard Shoemaker and Carol Mordhorst) has met four times. Meetings were open to the public and attendance was typically between 30 to 35 retirees. In addition, the Workgroup representatives met with the CEO and Human Resources staff to discuss their proposed recommendation to the Board of Supervisors.

The Workgroup focused on addressing the barriers associated with blending the retirees into the active employee health plan to allow for a continuation of health care coverage at an affordable rate. The Workgroup also discussed and reviewed a variety of health plan premium rate scenarios, an actuarial report prepared by AON Consulting on potential Other Post Employment Benefits (OPEB) liability, plan deficit projections, and catastrophic plan proposals with a range of deductibles as prepared by Keenan & Associates.

Human Resources developed an email list of interested retirees and has been providing these retirees with Workgroup meeting dates, times and discussion materials to keep them informed of the workgroup's progress.

Retiree Health Plan Workgroup Recommendation

After careful review of all the options outlined in Attachments 1 and 2, the Retiree Health Workgroup is recommending the Board of Supervisors consider blending the 120 non-Medicare eligible retirees who were participants in the retiree health plan in September 2011 (prior to the notification of the rate increase and elimination of the County subsidy) into the active employee health plan with the County funding 100% of the subsidy or an estimated $293,209 annually. The costs and impacts associated with this recommendation and an alternate proposal where the County funds 75% of the subsidy or an estimated $219,907 annually are identified in Attachment 1.

The recommendation/proposal of the Retiree Health Plan Workgroup as described in Attachment 1 will be presented by a Workgroup spokesperson representing the retirees.

CEO/HR/Keenan Recommended Action

Should the Board desire to rescind the notice of intent to terminate the retiree health plan effective February 29, 2012, based on the joint review with the Retiree Health Plan Workgroup of alternative options (as identified in Attachment 2) to allow for the continuation of health care coverage for the next two years until the Federal Health Care Reform exchange programs are implemented, Human Resources Staff, the County Executive Officer, and the County's Health Plan Consultant recommend:

1) Continue to offer the current plan (at $922.56 per participant fully paid by participant) through December 31, 2012 returning to the Board with quarterly updates on plan experience and funding levels. Refer to Attachment 2.

2) Allow for the approximate 60 non-Medicare eligible retirees who were participants in the retiree health plan in September 2011 (prior to the notification of the rate increase and elimination of the County subsidy) who subsequently dropped from the plan to have the opportunity to re-enroll with an effective date of March 1, 2012 at the same premium rate;

3) Return to the Board in August/September 2012 with a possible renewal option for Plan Year 2013 based on the experience levels of the participant group and status of the Retiree Health Plan Trust fund at that time;

4) Should the Board determine, after review of the proposed renewal rates for Plan Year 2013 (#3 above), its desire to retain the Retiree Health Plan for Plan (Calendar) Year 2013, confirm the Board's original intent to terminate the retiree health plan effective December 31, 2013 at which time the Health Care Reform exchange program is expected to be implemented.

This recommendation is being made based on a number of factors that have changed since the November 2011 report and the recommendation to terminate the plan was made:

- Based on Keenan's analysis/determination that $922.56 per participant in the currently existing non-Medicare Eligible Retiree Health Plan will cover full plan costs for the current participation size (60) or larger group of 120.
- Based on the analysis of options reviewed by the Workgroup, and quantifying the barriers associated with the continuation of a retiree health plan as identified in staff's presentation to the Board on November 15, 2011, it is staff and Keenan's belief that this option will result in the least potential liability and/or adverse impact to the County, with the understanding that the County's potential liability is related to plan run-out expenses, and that liability would be a factor regardless of when the plan ends.
- Keenan's $922.56 rate includes recovering an anticipated $113,000 shortfall expected by December 2011. However, this will only occur if collected over the 12 month plan year.
- Significant claims experience "spike" noted in August/September 2011 has decreased over past 3 months.
- Recent receipt of $10,654 prescription drug formulary rebate from Medco and anticipated future rebates of similar amounts.
- Anticipated receipt of ERRP revenues within the next few months of approximately $151,595 (provided Retiree Health Plan exists at the time these funds are received).
- Anticipation that current legislation extending ERRP funding will occur allowing the County to collect additional revenues to offset plan expenses.
- Stop Loss marketing resulted in a 2% reduction for retirees indicating a higher confidence level by insurers in high claims payout.
- Provides Retirees with continued health care coverage over the next 12 months while researching their own personal options.

Staff would like to acknowledge and express appreciation for Keenan's assistance and timely analysis on this project. While this additional work is not a part of their current contract, our consultant, Peter McNamara, attended all workgroup meetings and graciously offered to perform a number of additional analysis requested by the retiree workgroup at no cost. Keenan's contract for Non-Medicare eligible retiree health plan consulting services is at a not-to-exceed annual amount of $3,000. The amount of additional work performed on the retiree's behalf would typically have equated to a cost between $10,000 and $15,000.

Attachments

Attachment 1 – Retiree Health Plan Workgroup – Retiree Recommendations
Attachment 2 – Retiree Health Plan Workgroup – Alternative Plans Evaluated & CEO Recommendation
Attachment 3 – Active & Non-Medicare Eligible Retiree Health Plans Participation & Rates Calendar (Plan) Years 2011 & 2012

ATTACHMENT 1
Revised 1/24/12

RETIREE HEALTH PLAN WORKGROUP - Retiree Recommendations

		1	2	3	4	5	6	7	8	9	10
Option	ALTERNATIVE PLAN	Monthly Premium	Cost to Establish 3 Month Stablization Reserve	Subsidy - Per Year			OPEB Liability thru 12/31/13		OPEB Impact to County Bond Ratings	Meet & Confer	CEO Recommend-ation
				County	Active	Retiree	74 Enrolled	120 Enrolled			
A	Fully Blended - County Pays 100% of Subsidy	$576.78	N/A - Funded Thru Established Active Reserve	$293,209.00			$608,000	$681,000	Unknown at This Time - Previous Ratings Based on Zero Liability	Required	No
B	Blended/Different Rates - Retirees Pay Actives 25% Portion of Subsidy & County Subsidizes 75%	$663.33	N/A - Funded Thru Established Active Reserve	$219,907.00		$73,302.00	$608,000	$681,000	Unknown at This Time - Previous Ratings Based on Zero Liability	Required	No

Blending: The retirees and active employees are combined into one pool for purposes of underwriting, reserve sharing and cross subsidies of cost from active employees to retirees Rates are based on the combined claims experience of the two groups which provides lower rates for retirees while increasing the active employee rates. Premium rates for Plan II for active employees and retirees are the same.

Blending/Different Rates: Same blending of claims experience as above, however retirees absorb the increased cost of premium rates, due to blending, of the active employees which results in different rates for the two groups. Premium rates for the retirees would be higher than the active employees, but lower than rates determined by separating the claims experience of the two groups. (See below)

Separation: The retirees and active employees are combined into one pool for the sole purpose of realizing economies of scale for fixed expenses such as claims administration, thir party plan administration, stop loss insurance and network discounting. Rates are different for each group and reflect each group's own costs and claims experience which results in higher premiums for the retirees.

Credibility: The term pertains to reliability of given claims experience to predict future costs. In medical experience rating, this "credibility" or reliability is based on the size (numbe of lives) in the experience data. A claims experience with 500 or more lives is considered fully credible. As the number of lives decrease in a pool, the credibility of experience data is lowered. The threshold for noncredibility is considered to be 250 lives; a claims experience projection is considered to be 50% credible with 375 lives.

OPEB Liability: The Government Accounting Standards Board (GASB) requires that the costs that pertain to other post-employment benefits (OPEB), other than penison, are reported. GASB requires that employers report liabilities that are accrued in OPEB plans over the service time of employees, rather than as the current year's cash outlay. Since the Board's original stated intent for the Retiree Health Plan is to end the plan effective 12/31/13 when Health Plan Exchanges are implemented under Health Care Reform, the OPEB liability analysis is for a finite period of time, 2 years. This factor changes the potential liability significantly since normally OPEB liability is calculated over a 30 year time frame. In Mendocino County's situation the OPEB liability is amortized over the 2 year time frame, so becomes more similar to a cash flow analysis.

Stabilization Reserve: A stabilization reserve is typically established to protect the solvency of a self-insured health plan and ability to pay expenses in the event of extreme fluctuations in plan costs. Stabilization Reserves are usually equivalent to 3 months of plan expenditures. A stabilization reserve has never been established for the Retiree Health Plan. Since both 60 participants and 120 participants are not credible for cost projections, the retiree plan rates remain the same; the stabilization reserve amount, should one be established, would also remain the same for both group sizes. If the two groups are blended, the active stabilization reserve serves both pools. The active plan reserve amount is nc increased because of the small size of the retiree pool.

ATTACHMENT 2

RETIREE HEALTH PLAN WORKGROUP - Alternative Plans Evaluated & CEO Recommendation

		1	2		3		4		5	6	7
	CURRENT PLAN	Monthly Premium	Cost to Establish 3 Month Stablization Reserve		Monthly Premium with Stabilization Reserve		OPEB Liability thru 12/31/13		OPEB Impact to County Bond Ratings	Meet & Confer	CEO Recommend-ation
	Retiree (Zero County Subsidy)	$922.56	N/A - No Reserve		N/A		None		None	N/A	Yes - Thru 12/31/12
Option	ALTERNATIVE PLAN	Monthly Premium	Cost to Establish 3 Month Stablization Reserve		Monthly Premium with Stabilization Reserve		OPEB Liability thru 12/31/13		OPEB Impact to County Bond Ratings	Meet & Confer	CEO Recommend-ation
			1 Year	2 Year	1 Year	2 Year	74 Enrolled	120 Enrolled			
A	Blended/Different Rates - County Pays 75% of Subsidy; Actives Pay 25% of Subsidy	$576.78	N/A - Funded Thru Established Active Reserve		N/A	N/A	$311,000	$195,000	Unknown at This Time	Required	No
B	Blended/Different Rates - Retirees Pay 100% of Subsidy	$953.57	N/A - Funded Thru Established Active Reserve		N/A	N/A	$311,000	$195,000	Unknown at This Time	Required	No
C	Current Plan II Option - Fund 3 Month Stabilization Reserve	$922.56	$158,152.80 ($205.93 per month)	$158,152.80 ($102.96 per month)	$1,128.49	$1,025.52	None	None	None	N/A	No
D	Catastrophic Plan$1,000 Deductible with Option to Fund 3 Month Stabilization Reserve	$805.39	$158,152.80 ($205.93 per month)	$158,152.80 ($102.96 per month)	$1,011.32	$908.35	None	None	None	N/A	No
E	Catastrophic Plan $5,000 Deductible with Option to Fund 3 Month Stabilization Reserve	$756.50	$158,152.8 ($205.93 per month)	$158,152.8 ($102.96 per month)	$962.43	$859.46	None	None	None	N/A	No
F	Catastrophic Plan $10,000 Deductible with Option to Fund 3 Month Stabilization Reserve	$691.92	$158,152.8 ($205.93 per month)	$158,152.8 ($102.96 per month)	$897.85	$722.88	None	None	None	N/A	No

**ACTIVE & NON-MEDICARE ELIGIBLE RETIREE HEALTH PLANS
PARTICIPANTS & RATES
CALENDAR (PLAN) YEARS 2011 & 2012**

2011 (Mercer)	Actives				Retirees	
	Plan I	Rates	Plan II	Rates	Plan II	Rates
EE/Retiree Only	51	$ 881	461	$ 556	93	$ 819
EE/Retiree + Spouse	24	$ 1,930	216	$ 1,239	22	$ 1,638
EE + Child(ren)	14	$ 1,535	123	$ 991		
EE + Family	18	$ 2,626	158	$ 1,703		
Total	107		958		115	

2012 (Keenan)	Actives				Retirees	
	Plan I	Rates	Plan II	Rates	Plan II	Rates
EE/Retiree Only	47	$ 881	433	$ 556.38	52	$ 923
EE/Retiree + Spouse	29	$ 1,930	186	$1,239.38	9	$ 1,845
EE + Child(ren)	10	$ 1,535	126	$ 991.47		
EE + Family	11	$ 2,626	162	$1,703.11		
Total	97		907		61	

Non-Medicare Eligible Retirees - 2012 Rates

Rate Determination Factors: Rates are based on actuarial analysis of claims experience, projected enrollment, trend factors in the Northern California region, administrative costs, stop loss coverage cost, and plan design. Keenan and Associates non-Medicare retiree renewal rating for 2012 was based on the claims experience of 120 lives. Keenan believes keeping the $922 Per Retiree Per Month (PRPM) rate is the appropriate recommendation for the remaining retirees participating in the plan.

Public Comment: Mr. Howard Dashiell, Transportation Director.

Board Action: Both foregoing items were introduced by Supervisor Pinches, seconded by Supervisor Brown, and carried unanimously.

AGENDA ITEM NO. 5E – DIRECTOR'S REPORT – DEPARTMENT OF TRANSPORTATION

Presenter/s: Mr. Howard Dashiell, Transportation Director.

Board Action: No action taken.

AGENDA ITEM NO. 5F – PRESENTATION OF THE PHASE 2 REPORT - FIELD ASSESSMENT OF MANAGEMENT PRACTICES, POLICIES AND PROCEDURES FOR PROTECTING ANADROMOUS SALMONID HABITAT IN THE FIVE COUNTIES SALMONID CONSERVATION PROGRAM (5C) REGION (COUNTYWIDE) – SPONSORING DEPARTMENT: TRANSPORTATION

Presenter/s: Mr. Howard Dashiell, Transportation Director; Mr. Mark Lancaster, 5-County Salmonid Conservation Program Executive Director; and Dr. Richard Harris *(Private Consultant to 5-County Program)*.

Board Action: No action taken.

T1-2170

AGENDA ITEM NO. 5C – INTRODUCTION AND WAIVE READING OF AN ORDINANCE AMENDING MENDOCINO COUNTY CODE SECTION 9.31 MEDICAL MARIJUANA CULTIVATION REGULATION – SPONSORING DEPARTMENT: COUNTY COUNSEL

Presenter/s: Ms. Jeanine B. Nadel, County Counsel.

Public Comment: Mr. J.R. Rose; Mr. George Unsworth; Mr. Jesse Stockham; Mr. Wesley (Surname not provided); Mr. Mike Johnson; Ms. Paula Deeter; Mr. Nick (Surname not provided); Mr. John Mark; Ms. Jessica Messern; Ms. Sylvia Potter; Mr. Del Potter; Ms. Leslie Hines; Mr. Mark Thies; Ms. Diane Pauli; Mr. Khurshid Khoja, Emerald Grower's Association General Counsel; Mr. Sean Luse; Mr. Steven Merchant; Mr. Stephen (Surname not provided); Mr. Matthew Ennis; Ms. Monelle Riley; Mr. James Shaw; Mr. Eric (Surname not provided); Mr. Miguel (Surname not provided); Mr. Dan (Surname not provided); Mr. John Gaskill; Mr. Drew (Surname not provided); Mr. Sam (Surname not provided); Mr. Tomas Balogh; Mr. Paul Trouette, Mendocino County Fish and Game Commissioner; Mr. Paul Hansbury; Mr. Hal Wagenet; Ms. Joy Greenfield; Mr. Eliot (Surname not provided); Mr. Tim Blake; Ms. Julia Carrera; Mr. Aubrey Karcey; and Mr. George (Surname not provided).

RECESS: 11:36 – 11:44 A.M.

Board Action: Upon motion by Supervisor Hamburg, seconded by Supervisor Smith, and carried (4/1, with Supervisor Pinches dissenting); IT IS ORDERED that the Board of Supervisors introduce and waive reading of the ordinance amendment to the Mendocino County Code Section 9.31 Medical Marijuana Cultivation Regulation, incorporating changes outlined on an addendum sheet provided by County Counsel for Sections 9.31.040, 9.31.060, and 9.31.080; strike Subsections G and M of Section 9.31.060; and correct the numbering of Section 9.31.080 for Item Nos. one (1), three (3), five (5), and six (6).

LUNCH RECESS: 12:42 – 1:30 P.M.

T3-1274

AGENDA ITEM NO. 5D – PRESENTATION AND POSSIBLE ACTION ON RETIREE HEALTH PLAN WORK GROUP RECOMMENDATIONS ON THE TERMINATION AND ALTERNATIVES TO THE TERMINATION OF THE NON-MEDICARE ELIGIBLE RETIREE HEALTH PLAN EFFECTIVE FEBRUARY 29, 2012 – SPONSORING DEPARTMENT: HUMAN RESOURCES

Presenter/s: Ms. Carmel J. Angelo, Chief Executive Officer; Ms. Pat Meek, Human Resources Director; Ms. Sue Goodrick, Human Resources Manager; Mr. E. Peter McNamara, Keenan Associates, Senior Vice President - Municipalities; and Mr. Richard Shoemaker (Retiree Spokesperson).

Public Comment: Mr. Gary Hudson; Mr. Terry Melvin; Ms. Claudia Prochter; Mr. Dave Bengston; Mr. Greg Foss; Ms. Carol Mordhorst; Ms. Marsha Wharff ; Mr. Kyle Knopp, Senior Administrative Analyst; Ms. Linda Nagel; Ms. Sue Thornhill; and Ms. Annette O'Brien Fashauer.

Board Action: Motion by Supervisor Pinches, seconded by Supervisor Hamburg, to support Option A of the Retiree Health Plan with direction to staff to engage in a meet and confer process with the bargaining units.
(Upon further consideration the motion was amended)

RECESS: 4:08 – 4:47 P.M.

Board Action: Amended motion by Supervisor Pinches, seconded by Supervisor Hamburg, and carried unanimously; IT IS ORDERED that the Board of Supervisors:

1) Accept presentation from Staff and Retiree Health Plan Work Group on recommendations on termination and alternatives to the termination of the Non-Medicare Eligible Retiree Health Plan effective February 29, 2012;

2) Confirm the Board's intent to terminate Retiree Health Plan effective no later than December 31, 2013;

3) That the Board rescinds their earlier decision to terminate the Retiree Health Plan effective February 29, 2012, that was made on November 15, 2011, and approve the Retiree Health Plan Work Group proposal No. B subject to meet and confer effective April 1, 2012. The Board further extends the current plan at $922.56 per participant fully paid by participants through March 31, 2012;

   3a) Allow for the approximate 60 non-Medicare eligible retirees who were participants in the Retiree Health Plan in September 2011 (prior to the notification of the rate increase and elimination of the County subsidy) who subsequently dropped from the plan to have the opportunity to re-enroll with an effective date of April 1, 2012;

   3b) Return to the Board with quarterly updates on plan experience and funding levels and return to the Board in August/September 2012, with a possible renewal option for Plan Year 2013.

T5-1115

AGENDA ITEM NO. 5A – CHIEF EXECUTIVE OFFICER'S REPORT
Presenter/s: Ms. Carmel J. Angelo, Chief Executive Officer.

Board Action: No action taken.

AGENDA ITEM NO. 5B – DISCUSSION AND POSSIBLE ACTION INCLUDING REVIEW, ADOPTION, AMENDMENT, CONSIDERATION OR RATIFICATION OF LEGISLATION PURSUANT TO THE ADOPTED LEGISLATIVE PLATFORM – SPONSORING DEPARTMENT: EXECUTIVE OFFICE
Presenter/s: None given.

Board Action: No action taken.

T5-1253

AGENDA ITEM NO. 6B – INTRODUCTION AND WAIVE READING OF ORDINANCE AMENDING SECTION 3.04.071 OF THE MENDOCINO COUNTY CODE REGARDING COMPENSATION FOR ELECTED COUNTY SUPERVISORS – SPONSORS: SUPERVISORS BROWN AND MCCOWEN
Presenter/s: Chair McCowen and Supervisor Brown.

Public Comment: Mr. J.R. Rose.

Board Action: Upon motion by Supervisor Pinches, seconded by Supervisor Brown, and carried (3/2, with Supervisors Smith and Hamburg dissenting); IT IS ORDERED that the Board of Supervisors Introduce and waive the reading of Ordinance amending Section 3.04.071 of the Mendocino County Code regarding compensation for elected County Supervisors.

County of Mendocino

ESTIMATED GASB Accounting Values and Present Value of OPEB Benefits Paid in 2012 and 2013 Under Various Scenarios

	120 Retirees Scenario				70 Retirees Scenario			
	Actives and Retirees Fully Blended		*Active and Retirees Separately Rated*		*Actives and Retirees Fully Blended*		*Active and Retirees Separately Rated*	
	0% Retiree Subsidy		0% Retiree Subsidy		0% Retiree Subsidy		0% Retiree Subsidy	
	2012	2013	2012	2013	2012	2013	2012	2013
Rates (Single, monthly)	$616	$672	$985	$1,074	$617	$673	$1,179	$1,285
Existing Retirees Total Enrollment *	130	113	130	113	76	66	76	66
Future Retirees Total Enrollment	14	49	14	49	14	49	14	49
County Implicit Subsidy,	$369	$402	$0	$0	$562	$613	$0	$0

* Total Enrollment = Retirees plus spouses.

GASB Accounting Basis Estimates - Potenital Future Program Only

	120 Retirees: Fully Blended	120 Retirees: Separately Rated	70 Retirees: Fully Blended	70 Retirees: Separately Rated
No Future Retirees				
6/30/2012 Present Value of County-Paid Benefit	788,000	-	705,000	-
6/30/2012 Net OPEB Obligation	-	-	-	-
Estimated ARC, FY 2013	545,000	-	487,000	-
Estimated Annual OPEB Cost, FY 2013	545,000	-	487,000	-
6/30/2013 Net OPEB Obligation	-	-	-	-
Estimated ARC, FY 2014	272,000	-	243,000	-
Estimated Annual OPEB Cost, FY 2014	272,000	-	243,000	-
6/30/2014 Net OPEB Obligation	-	-	-	-
Estimated ARC, FY 2015	-	-	-	-
Estimated Annual OPEB Cost, FY 2015	-	-	-	-
With Future Retirees				
6/30/2012 Present Value of County-Paid Benefit	1,036,000	-	1,081,953	-
6/30/2012 Net OPEB Obligation	-	-	-	-
Estimated ARC, FY 2013	716,000	-	748,000	-
Estimated Annual OPEB Cost, FY 2013	716,000	-	748,000	-
6/30/2013 Net OPEB Obligation	10,000	-	24,000	-
Estimated ARC, FY 2014	389,000	-	421,000	-
Estimated Annual OPEB Cost, FY 2014	380,000	-	398,000	-
6/30/2014 Net OPEB Obligation	1,000	-	1,000	-
Estimated ARC, FY 2015	-	-	-	-
Estimated Annual OPEB Cost, FY 2015	(1,000)	-	(1,000)	-

Assumptions:

Actives and Retirees Fully Blended means the Plan II actives and retirees pay the same monthly premium

The illustration above ignores any remaining accounting entries from the current OPEB benefit program.
Amortization period - To End of Plan Benefits (1/1/2014)
Actuarial valuations at each June 30 consider only the benefits in effect on that date.
Discount rate = 5%

State exchanges available and the County terminates retiree plan on 1/1/2014
15% fluctuation margin for separate retiree plan scenarios
30% risk adjustment load on 70 retiree scenarios
9% trend for 2012
2011 trend is the same as used by Keenan for the renewal
The relative values of the plans are based on the 2011 rates

We used Keenan's June 30, 2011 reserve calculation for early retiree medical and Rx
The rate development is based on claims information from August 2010 through July 2011 as provided by I
Age and gender mix of 70 or 120 early retirees is the same as the current group
Active employees assumed to retire in accordance with the valuation assumptions.
10% of new retirees cover spouses
Retirements occur in the middle of the year
Age and gender mix of new retirees in 2012 and 2013 is the same as exisiting retirees.
No mortality assumed

We used plan admin expense information, tier counts and 2011 rates as described in Keenan's report.
The census of active employees and early retirees was provided by the County.

Aon Hewitt
January 23, 2012